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Submitted to:
House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

Senate Committee on Small Business and Entrepreneurship
428A Russell Senate Office Building
Washington, D.C. 20510

***Subject: Statement for the Record on Joint House & Senate Full Committee Hearing on Tax:
“Prosperity on Main Street: Keeping Taxes Low for Small Businesses”***

Chairwoman Ernst, Ranking Member Markey, Chairman Williams, Ranking Member Velázquez, and Members of the House and Senate Small Business Committees:

Thank you for inviting me to submit this written testimony. My name is Jeff Hibbard, and I serve as the Chief Executive Officer of IntervalZero, Inc., a Massachusetts-based software company that develops Real-Time Operating Systems (RTOS) for use in industrial control systems. Since founding the company in 2008, I led IntervalZero’s growth to a \$10 million enterprise employing 54 professionals.

We all share the goal of supporting growth, competitiveness, and sustainability for small businesses in the United States. That is why I am submitting this testimony to bring to your attention to the devastating effects of the changes to Section 174 of the Internal Revenue Code enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA). The requirement to capitalize and then to amortize rather than immediately expense R&D costs in the same year that they occur has had a disproportionately harmful impact on small, innovation-driven companies such as ours.

Industrial Control Systems Market Overview

IntervalZero plays a vital role in the Industrial Control System (ICS) market. ICSs are automated systems that control and monitor industrial processes such as assembly lines, robotic devices, or manufacturing operations. They enable and manage highly complex tasks with precision. The systems and the capabilities they support are foundational to factory productivity, industrial automation, and the overall functioning of modern machinery, especially in advanced, critical industries like semiconductors, robotics, and medical equipment.

Our software adds the precision to machines on the factory floor so they can perform functions that impact the lives of Americans every day. If you have flown on a Boeing Jet, your pilot was trained on a flight simulator powered by our software, ensuring safe and realistic practice. If you drive a car manufactured in the USA, there's a good chance the frame was welded together by a robot controlled by



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our software, providing precise and reliable assembly. The shiny glass screen on your iPhone was likely cut and polished by a machine guided by our software, ensuring a flawless finish and even some of the chips inside that phone relied on machine controllers built with our software. The green printed circuit board full of chips inside your computer, was assembled by a machine using our software, making your computer function seamlessly. If you have watched an LED TV or monitor, there's a chance the LEDs were placed on the display by a machine controlled by our software, providing you with a clear, colorful, and vibrant picture.

In short, we don't just sell software—we help make the machines that power modern life work better. Our contributions ripple outward: when companies like IntervalZero are strong, our customers are more productive and innovation is accelerated across industries that directly affect people's lives.

At IntervalZero, we offer machine builders a Software Development Kit (SDK) to design custom ICSs for their equipment. Traditionally, an industrial control system requires custom hardware and specialized engineering, which is very expensive. But through extensive R&D, we figured out a way to deliver the same performance, quality, and reliability using a software application that simply runs on off-the-shelf Microsoft Windows PCs at far less cost and shorter time to market. Our core product, RTX64, is widely recognized in industry as a Real-Time Operating System (RTOS).

Our high-volume customers span the semiconductor, robotics, printed circuit board, and CNC industries. For example, three prominent Japanese customers manufacture machines capable of mounting computer chips onto green printed circuit boards at rates of up to 80,000 chips per hour. While NDAs restrict us from naming most clients, some are CHIPS Act beneficiaries because their machines are being deployed in Arizona and Texas at new semiconductor plants. We may be a small business, but our competitors include major industry players like Siemens and Rockwell Automation, as well as smaller firms from Germany, China, Korea, and Japan.

Strategic Importance of R&D At IntervalZero

R&D is the lifeblood of competitiveness in our industry because it allows companies like ours to understand and employ technological advancements that make our products better for clients. Our customers demand flawless performance; a single error can lead to personal injury, production disruptions, or reputational damage. IntervalZero commits to delivering 100% execution reliability within pre-defined time boundaries—a remarkably high standard that demands constant, intensive R&D investment.

R&D is also central to our business strategy. We purposefully outspend our smaller competitors in R&D to create meaningful product differentiation. Unlike large industrial automation giants, we rely on agility and responsiveness to quickly adopt and integrate new technologies for our customers. From our founding until Section 174 took effect, we reinvested profits, achieved average annual growth of 6%, and hired consistently until reaching 54 employees.

Sustained R&D investment is essential to maintaining market leadership. In our industry, innovation cycles are closely tied to product relevance and long-term viability. Missing even a single design cycle can result in falling behind, as competitors who continue to invest gain a technological edge. Companies that delay or outsource critical R&D may find themselves unable to keep pace, eventually losing customer trust and market share.

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Failure to keep pace may not be immediately visible but compounds over time. Even American giants like Intel and Boeing are now viewed as cautionary tales for missing crucial R&D windows. Section 174 is already forcing similar setbacks at IntervalZero and across America's software sector, which I know from my work with other software CEOs.

Our global competitors—particularly in Germany, Japan, and China—are doubling down on innovation. Without a change in policy, IntervalZero and companies like it will soon fall too far behind to recover lost ground.

IntervalZero's Three Phases of Response to Section 174

Historical Context

In 2021, IntervalZero reached a milestone: 54 employees and \$10.2 million in sales. Sixty-eight percent of our team was dedicated to R&D, our core RTOS engineering work is all centered in Waltham, MA. Despite only 25% of our revenue coming from the U.S. (with 25% from Europe and 50% from Asia), we took all orders and paid all taxes in U.S. dollars.

We made a conscious decision to prioritize engineering over management. We had no VPs of Marketing and Business Development, nor a CTO—choosing instead to invest in R&D talent. For years, this was a strategic advantage. It allowed us to be nimble, innovate quickly, and focus every available dollar on product development rather than executive overhead.

However, Section 174 amortization provisions fundamentally changed that equation. It penalized exactly the type of companies America should be supporting: small, R&D-intensive businesses reinvesting their earnings into innovation. The shift from expensing to amortizing R&D expenses meant that every dollar we spent on innovation suddenly came with an additional tax liability. What was once a deliberate and successful business model—lean on management, heavy on engineering—became a cash-flow liability we could no longer afford.

Over the past five years, IntervalZero's average pre-tax profit was \$222,000. Yet our Section 174-related tax burdens were approximately: \$800,000 in 2022, \$600,000 in 2023, \$400,000 in 2024, and were projected to be \$200,000 for 2025—an unsustainable imbalance.

Phase 1- Survive with Team Intact

When the new tax obligations hit, we were shocked and caught off-guard but our first priority was to preserve our team. Corporate memory and training take years to build. Letting go of even one person felt like losing family. Each member of our engineering team represents deep, highly specialized expertise that is essential to our success. For every software engineer we lose, it takes approximately four years to fully replace their knowledge, skills, and understanding of our systems. Losing team members meant losing vital investment in that essential expertise—investment that had already been made and would take years to rebuild. These aren't interchangeable roles; they are foundational to our products and to our ability to deliver the performance and reliability our customers depend on.

We implemented immediate freezes on spending, hiring, and raises and increased our prices. I engaged with local technology councils in hopes of repealing the changes to Section 174. We also drew on our line of credit. Unfortunately, at the same time, foreign competitors slashed prices, causing our sales to fall and the market share we had worked so hard to build started to shift overseas. Worse, Section 174 drained our precious cash and our bank noticed. Ultimately, the bank withdrew our line of credit, and we would have to seek a loan elsewhere if we needed one.

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Phase 2 – Keep the team- Seek outside funding partner

We remained committed to protecting our team. Reducing our workforce and then hiring and training new staff when we recovered would take years. To bridge the tax gap initially, my wife and I tapped into our personal savings to cover approximately \$1 million in Section 174 specific taxes.

We then explored private equity, with most inquiries coming from international firms in Canada, Korea, and England. However, none of the offers we received were acceptable and severely undervalued the business relative to our historic growth and our recurring revenue. Following that and believing the sales downturn would be temporary, I signed a personal guarantee to secure a loan and, following that, the company was able to secure \$1.0 million in loans in Q4 2023.

By the end Q3 2024, IntervalZero had taken \$2.0 million in support, including \$1.0 million in loans and approximately \$1.0 million in our personal savings. This was necessary just to cover the approximate \$1.8 million in Section 174 associated tax obligations.

Phase 3 – Accepting the Inevitable

In Q4 2024, it was clear that our cash reserves were about to be exhausted. Facing another \$200,000 in Section 174 taxes plus loan repayments in 2025, we had no option but to reduce our engineering workforce which was the cause of the extraordinary cash drain.

Rather than laying our friends/teammates off during the holidays, in Q4 23, we took another loan for \$200,000 to tide us over until January 14, 2025 when I scheduled and executed the reduction in force. During 2024, we had been helping people retire early and did have some attrition, so in January 2025, we laid off 12 employees, ultimately bringing our headcount down to 35 from the high of 54 teammates. This was devastating for a company where employees are like family. It was also devastating to the people we let go and to the well-being and stability of their families. Remarkably, the remaining team has not received raises in three years, yet their loyalty has been unwavering. And it was devastating to me personally. I felt like I had failed my team.

By the end January 2025, we had to take one final loan for \$300K to pay for the layoffs.

IntervalZero Current Situation

We are now profitable and rebuilding our cash reserves. Our immediate priorities are rewarding employees with raises and repaying our debt. However, we still owe nearly \$1.5 million in loans and face an estimated \$170,000 in Section 174 taxes (down from \$200,000 due to the layoff.)

With an average annual profit before tax over the past 5 years of just \$222,000, the obligation to repay the loan makes our ability to invest in R&D like we once did impossible. Even though we are profitable it will take at least 5 years and maybe up to a decade before we can start investing in R&D again. Without R&D, we are sure to miss several cycles of innovation. This means that small businesses like mine—businesses that have historically driven innovation and technological advancement—are left unable to develop new products, grow our companies, or help maintain America’s global competitiveness. Without meaningful innovation, we risk losing our technological edge over foreign competitors once and for all - especially to those in China and Germany who have us in their sights.

Ask to Congress

I respectfully request that Congress repeal Section 174 in full and make the repeal retroactive to its effective date. Doing so would allow IntervalZero to recover approximately \$1.8 million already paid in Section 174-related taxes, eliminate our outstanding debt, and immediately resume investments in R&D, hiring, and innovation.

Thank you for your time and for your commitment to supporting America's small businesses and innovation economy.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. D. Hibbard".

Jeffrey D. Hibbard
CEO, IntervalZero