

Fewer firms may get R&D funds under House legislation

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Fewer small businesses may get Small Business Innovation Research awards under legislation passed by the House.

Through the SBIR program, 11 federal agencies set aside at least 2.5 percent of their outside research budgets for small businesses. That represents more than \$2 billion a year. The program's authorization expires July 31.

The House overhauled the program in its reauthorization bill, which passed July 8 on a 386-41 vote. The legislation would make small companies that are majority-owned by venture-capital firms eligible for SBIR awards, reversing a 2003 administrative law judge decision that ruled these companies do not qualify as small businesses.

The bill also increased the size limits on SBIR awards, from \$100,000 to \$250,000 in Phase 1, and from \$750,000 to \$2 million in Phase 2. However, the legislation didn't increase the share of federal research dollars going to the SBIR program. The result: bigger, but fewer, SBIR awards.

However, the strength of the SBIR program is its wide reach, said Kyle Kempf, senior director of government affairs for the National Small Business Association. The House bill "raises the specter of a drastic reduction in the number of awards and the number of small businesses able to participate."

The legislation also would allow firms to skip Phase 1, where an idea's scientific and commercial promise is explored, and apply directly for Phase 2 awards, where more extensive research and development is done on an idea's feasibility and merit.



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Dan Rini of Rini Technologies Inc.

SENATE SEEKS MODEST CHANGES

The National Small Business Association supports Senate legislation that would make more modest changes to the program.

There's no need for radical changes, said Jere Glover, executive director of the association-affiliated Small Business Technology Council. "There's no other government program anywhere near as good at commercializing or getting technology into the marketplace."

Under the Senate bill, which passed unanimously July 13, firms majority-owned by VC firms would be eligible for a limited share of SBIR awards: 18 percent of the contracts awarded by the National Institutes of Health, and 8 percent at the other 10 agencies in the program.

The Senate legislation also calls for smaller increases in the size of SBIR

House SBIR legislation

- **Makes small businesses** majority-owned by venture-capital firms eligible for SBIR awards as long as no single VC firm owns more than 50 percent of it.
- **Increases size of** SBIR awards from \$100,000 to \$250,000 in Phase 1, and from \$750,000 to \$2 million in Phase 2.
- **Gives priority to** applicants from rural areas and areas that have lost a lot of jobs, as well as businesses owned by veterans, minorities and women.

awards: to \$150,000 in Phase 1; and to \$1 million in Phase 2. It also would increase the SBIR's share of federal research contracts to 3.5 percent during the next 10 years.

Members of the House and Senate must work out their differences before the SBIR legislation is signed into law. Otherwise, the program could be extended as is.

Regardless, local technology firms don't see it having much effect on them and generally support an expansion of the program, even though there could be more competition for the awards.

"It gives them more flexibility," said Dan Rini, president and founder of Rini Technologies Inc. in Oviedo, which has gotten more than 30 SBIR awards in its nine-year history. The company, which doesn't have any venture-capital backing, makes personal cooling devices for soldiers.

Likewise, Carol Wideman, president and CEO of educational software firm

Vcom3D in Orlando, said the legislation will allow more firms to get involved with the SBIR program, which eventually will help commercialize more good ideas.

Wideman, who's on the National Science Foundation's SBIR Advisory Committee, doesn't have venture-capital funding either, but her firm has gotten about 20 SBIR awards in the last 10 years.

Tom O'Neal, director of the University of Central Florida Technology Incubator program, hopes the new legislation will result in stronger companies. However, he doesn't expect the changes to have much effect on the nearly 80 firms in the incubator.

Only about 20 have gotten SBIR awards and even fewer have attracted venture capital funding. Venture capital prefers more advanced-stage companies than the ones typically in the incubator, O'Neal said.

MANY BIOTECHS NOW INELIGIBLE

If the House version of the bill prevails, it would reward a long campaign by the Biotechnology Industry Organization and the National Venture Capital Association to let VC-owned companies regain access to SBIR awards.

More than half of small biotech companies in the U.S. haven't been able to compete for SBIR awards since the 2003 ruling, said BIO. That's not fair since the cost and time involved in developing new biotech therapies forces them to take venture capital, BIO contends.

The House bill is "a critical step toward ensuring all innovative companies can compete for SBIR grants based on the promise of their science rather than the structure of their capital," said BIO President and CEO Jim Greenwood.

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