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Federal Funding Still Good for Small Technology Firms

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Congress in December voted to continue two federal programs that offer funding to small businesses involved in technology and innovation. The Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR) were reauthorized as part of the National Defense Authorization Act, ensuring their funding through 2017.

SBIR grants money to small and startup businesses to develop products, technology or services that solve pressing problems in agriculture, defense, education, energy, transportation, the environment, space exploration, health and other areas. STTR also grants money but requires the business to collaborate with a nonprofit research laboratory or university.

Eleven federal agencies – including the Department of Defense, Department of Energy, National Institutes of Health, NASA and National Science Foundation – offer SBIR grants and contracts, and five offer STTR awards. Both programs provide money that doesn't have to be repaid, and the business doesn't have to surrender equity.

The reauthorization has brought some significant changes to both programs, and Northern New Mexico Connect and Technology Ventures Corporation are hosting two workshops in March to explain what's new and to teach entrepreneurs how to write a competitive proposal for the appropriate program. The Albuquerque workshop, called "Write a Competitive Phase I SBIR/STTR Proposal," happens March 15 at TVC's Albuquerque office; the next day in Santa Fe at the Santa Fe Business Incubator, the workshop theme is "Write a Phase II SBIR/STTR Proposal."

The recent legislation increased the programs' overall budgets, expanded eligibility to additional companies and allowed agencies to keep some money for administrative costs. In the past, firms whose majority owners were multiple venture capitalists, hedge funds and private equity funds were ineligible. Under the new legislation, these firms can receive between 15 and 25 percent of an agency's total SBIR awards, depending on the agency.

The inclusion of venture capital-backed businesses is expected to increase competition for SBIR funds, but small firms that are not majority owned by venture capitalists, hedge funds and private equity firms should benefit by the expanded overall fund pool.

The STTR program may be more attractive to small technology firms than in the past because companies majority-owned by multiple venture capital firms are still ineligible to receive these funds – small firms won't have to compete with venture capital firms that may have deeper pockets to fund their STTR proposal preparation efforts. STTR is not subject to the increased administrative withholding imposed on the SBIR program, and an enlarged pool could mean a 50 percent increase in available funds compared to 2011 amounts.

Projects that win funding get the money in phases. In Phase I, recipients receive up to \$150,000 to conduct a technical feasibility study that shows how the innovation will solve a problem; this phase takes six to 12 months. In Phase II, which can last two years, recipients may receive up to one million dollars more to expand and complete research and development.

In Phase III, recipients should commercialize the results of the first two phases with no additional SBIR/STTR funds. However, if the federal government is the intended customer, an agency may award Phase III money from non-SBIR or non-STTR funds. The award also can help a business attract funding from traditional lenders and venture capitalist once the merits of an innovation have been demonstrated and a working prototype has been built.

For more information about the workshops, visit New Mexico's statewide business calendar at www.bizcalendar.org. To register, go to www.techventures.org/events.

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