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SPECIAL REPORT

Uncle Sam Wants Your Tech! Federal Grants Encourage Small Business to Develop Technology Needed by Agencies

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Recently, the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) federal grant programs held an informational workshop in Lafayette, Louisiana. The workshop explained how roughly \$2 billion in federal grants are distributed annually to small businesses through SBIR/STTR, and detailed the process used to apply for those grants.

Through these programs, your company can not only do business with the federal government, but get paid to develop technology or a new application of an existing technology for Uncle Sam. Best of all, you retain the right to commercialize the technology you create.

What is SBIR/STTR?

SBIR and STTR are federal grants for small business funded by mandatory set-asides from the budgets of the Departments of Defense, Commerce, Energy, Transportation, Homeland Security, as well as, HHS, NASA, NSF, USDA, EPA, and ED. The objective of these programs is to encourage small business to develop technology for use by these agencies and to facilitate its procurement by the government.

Benefits to the small businesses selected are manifold. First, absolutely no debt is incurred by the business or its owner and no pay-back is required as a result of an award. Second, owners of the company retain all control and equity in the business. Third, an award makes you the sole-source provider to the federal government for the technology produced. Finally, these grants can be leveraged to attract additional funds from private venture capital.

Money awarded is used to fund innovative, high-risk, early-stage projects. Grants can be used to pay for overhead, including equipment (leasing is recommended) and salaries, and up to 1/3 of the Phase I award and up to 1/2 of the Phase II award can be used to subcontract.

Procedures to apply for these grants are less complex than the typical federal procurement process. So some companies use the process in lieu of going through procurement. Even if a grant is not awarded, the company can benefit because its idea will be scrutinized by an agency which may decide to purchase it anyway.

Who may apply?

There are some restrictions on the kind of businesses that can qualify for participation, but they are fairly straight forward. Participants must employ fewer than 500 people and be a for-profit concern, with more than 50% American or permanent resident alien ownership, located in the U.S., and cannot be "dominant in the field." Further, subsidiaries are not eligible for STTR.

Additionally, the proposer must involve universities or non-profits in its research effort, there must be a written agreement between the research institution and the business regarding ownership of the technology, and the resulting product must be capable of being commercialized. All R&D must be performed in the U.S., unless an exception is granted, but foreign collaboration is allowed as long as the work is done here.

How much can my company receive?

For a "Phase I" feasibility study, the award is up to \$100,000 per project. A "Phase II" award for full research and development is up to \$750,000 per project. And the time between proposal and an award decision is fairly short in Phase I—six to nine months for SBIR and twelve months for STTR.

Phase II can take up to two years following the completion of Phase I, however, so it is not recommended that you rely on these grants as your company's only source of start-up capital. But attracting venture capital to your project generally becomes easier following a SBIR/STTR award.

What does the grant process involve?

Beginning the process of preparing a grant proposal is simple, but will take some effort. The first step is to visit the websites of each participating agency to determine whether it has provided an R&D solicitation "subtopic" that matches your businesses' expertise or direction.

Unsolicited proposals are not accepted, however, an agency occasionally will post a subtopic such as, "Other good ideas." Feel free, in that event, to prepare anything you think the agency might like to see.

When you find a subtopic you wish to pursue, your company must prepare a short proposal of no more than 25 pages. The proposal must be submitted quickly as topics may remain "open" for only a few weeks.

The agency then will review all proposals to a given "subtopic" and prioritize the ones it wishes to fund from the roughly 2% of its annual budget set aside for SBIR/STTR grants. An agency may also decide to fund grants from additional budgetary sources, if it sees more interesting projects than can be funded through its SBIR/STTR set-aside. So even if mandatory SBIR/STTR grant funds are used up, there is still a possibility that meritorious proposals will be funded.

What's the difference between Phase I and Phase II proposals?

Phase I proposals must demonstrate preliminary feasibility or proof-of-concept. In making an award, agencies evaluate the project's technical merit, the firm's qualifications, and the potential commercial or societal benefit of the proposed technology.

A Phase I proposal should also reflect an understanding of any work of the same kind that has already been done by others. In other words, your proposal should not stress the novelty of an idea if a report of similar work was published before. Conversely, if similar work by others in the field has been unsuccessful, the proposal should describe why the approach to be used by your company will differ from those that failed.

At the conclusion of Phase I, companies must produce a report describing their progress and results, and if Phase I was successful, a Phase II proposal should be submitted. Only Phase I winners can compete for Phase II grants.

Phase II proposals expand on the results of Phase I and emphasize development of the technology. Phase II awards may be used to fund prototype development or other testing or demonstrations of the concept, and initial efforts to commercialize. Upon the successful completion of Phase II, your company will become the sole-source provider of its technology to the U.S. government. Additionally, your business will be free to market the technology commercially.

Get to Know the Agencies. They'll be here:

- ◆ **Baton Rouge Procurement and Contracting Opportunities Conference, October 12.** Exhibitors will include local, state and federal government agencies as well as prime contractors. The Louisiana Procurement Technical Assistance Center (*discussed below*) will also present 45 minute breakout workshops on government contracting. For additional information contact the Baton Rouge Chamber of Commerce at 225-381-7125, or to register online, go to <http://www.chamberhub.com/cgi/foxweb.dll/wlx/cal/wlxprofile?caleid=227&cc=GBRCC>.
- ◆ **The 2006 Fall National SBIR/STTR Conference, November 6-9** in Milwaukee, Wisconsin. "At this National Conference in Milwaukee, new and aspiring small businesses can learn about the SBIR/STTR Program: how to apply for, and what it takes to win, some of the \$2 billion in U.S. Government R&D investments. The SBIR program funds high-risk projects at the earliest stages of technology development-before companies can attract venture capital-and works with you through that development and on into the actual commercialization of your technology!" See www.sbirworld.com/WI/ for more information.

Who owns the technology?

Ownership of the intellectual property resulting from grant-funded research is retained by the proposing business and its partners, but the government does get

the right to royalty-free use of the technology. "Royalty-free use" means the following: (1) If the agency wishes to purchase a product incorporating the technology and the small business "proposer" is unable to supply it in a time of national need, the government may allow a third-party to manufacture the invention; or (2) The purchase price of a product or service incorporating technology funded through SBIR/STTR must be discounted by the amount of the royalty.

As an additional protection, data provided as part of the grant proposal package is not published by the agency until four years after the completion of Phase II and cannot be disclosed even pursuant to a Freedom of Information Act (FOIA) request. The four-year period is provided to give the proposer an opportunity to patent or copyright the technology developed.

Additional Tips

It is important to understand the requirements of each agency to which you submit a proposal, as they differ on the number and timing of solicitation, topic areas, amount of award, proposal preparation instructions, etc. A proposal may be simultaneously submitted to more than one agency, although only one award may be given for each technology. A single company may receive concurrent grants, however, for different technologies or unique applications of a single technology.

Businesses interested in preparing a grant proposal under these programs should routinely review each agency's website. If an agency releases a "pre-proposal announcement" of a subtopic, the business is allowed to discuss what the proposal should emphasize with the indicated agency contact person and get other pointers on how to best present your idea. Once a proposal subtopic is announced, however, the agency can no longer freely discuss the subject.

Be sure to review all agencies' websites, as well; not just the ones that you believe will be interested in your technology. Interestingly, the agency spending the most on cancer research, for example, is not the Department of Health and Human Services but rather the Department of Defense. You just never know who may be looking for your "thing."

Additional assistance in Louisiana.

To assist Louisiana businesses in competing for SBIR grants, the Louisiana Business & Technology Center (LBTC) at LSU has put together a SBIR "Phase 0" program awarding up to \$2,500 per project to fund expenses for SBIR/STTR grant writing, travel to SBIR conferences (*see the information box above*) or federal labs, and SBIR software paid by Louisiana companies.

Louisiana companies eligible for SBIR grants may claim federal research income tax credits against state income/corporate franchise taxes (subject to LDED approval) and can either carry those credits forward for ten years or sell excess unused tax credits for 75% of value, creating cash for start-up firms. Finally, a one-time tax credit equal to 8% of the SBIR grant value is given to companies actually receiving grants.

Good help when you need it! MEPoL.

Another great resource for technology and manufacturing businesses in

Louisiana is the Manufacturing Extension Partnership of Louisiana (MEPoL). MEPoL is a University of Louisiana at Lafayette program assisting small to medium-sized manufacturers in Louisiana.

Whether you need to produce Phase II prototypes from CAD, want to learn how to operate your company as a "Lean Enterprise" or just need a website, MEPoL can help. MEPoL also offers a free newsletter. So if you are a manufacturer, it will behoove you to explore how working with this state-wide resource can increase the productivity and profitability of your company.

Want to learn how to sell to the government?

If so, then the Louisiana Procurement Technical Assistance Center (LA PTAC) can help. Founded in 1989 by the University of Louisiana Lafayette and the U.S. Department of Defense, LA PTAC's mission is "to generate employment and improve the general economy of Louisiana by assisting business firms in obtaining and performing under the U.S. Department of Defense, other federal agencies, state and local government contracts."

For more information on this subject, see these websites:

- ◆ SBIR: www.sbirworld.com;
www.zyn.com;
- ◆ LBTC: www.bus.lsu.edu/lbtc;
- ◆ MEPoL: www.mepol.org;
- ◆ LA PTAC:
http://www.cbit.louisiana.edu/ptac/About_PTAC.htm.

LA PTAC services include acquisition forecasting, solicitation review, bid and proposal assistance, negotiation support, contract administration and management, cost accounting, marketing and so much more. PTAC works not only with individuals and businesses wishing to contract with the DOD, but also with those who want to work with other federal, state and local governments as well. Best of all, LA PTAC does not charge for its services. That's right, it's free! (Well, okay, let's just say "already paid for.")

Further, PTAC reaches 54 parishes in Louisiana through its five outreach centers. So if you need one-on-one counseling to identify or review contracting and bidding opportunities, to prepare proposals, or could really use some assistance with contract implementation and administration, you should take advantage of their expertise.

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