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Innovations rely on pending grants

By JASON GERTZEN
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High-tech economy advocates in the region are concerned by a disagreement threatening to choke off helpful federal technology development grants.

New developments, however, are offering prospects for improvement.

Transforming cutting-edge innovations into commercial products requires money.

Often a lot of money.

This continues to stand as one of the greatest obstacles for high-tech entrepreneurs in the Kansas City area.

The region increasingly is rich with ideas coming from academic laboratories and other innovation hubs such as the **Stowers Institute for Medical Research**. A rising number of entrepreneurs are emerging here to shepherd companies developing these potential new medicines and business advances.

While some money is flowing, an overall dearth of investment capital remains a major missing ingredient.

The **Small Business Innovation Research**, or SBIR, program and the **Small Business Technology Transfer**, or STTR, program have pumped a total of \$91 million into Missouri and Kansas companies since 2000.

"SBIR funding is very important," said Tracy Taylor, president and chief executive officer of **Kansas Technology Enterprise Corp.**

A recent problem, however, blocked these grants going to companies that had been successful in raising outside investment from venture capital firms.

U.S. Small Business Administration officials ruled several years ago that companies in which venture capitalists owned and controlled 51 percent no longer would be eligible for the grants. Part of their reasoning was that these sorts of firms no longer should be considered small businesses for which the programs were designed to aid.

The process of developing advanced technology, life sciences innovations in particular, can be so expensive that many businesses must gather venture capital money, federal grants and other types of financing if they are to succeed.

Venture capital funding is not a luxury, but a necessity for companies pursuing the development of new drugs that can take more than a decade and hundreds of millions of dollars, according to the **Biotechnology Industry Organization**, or BIO.

The business administration ruling has hindered entrepreneurs, BIO said.

"Many biotech companies have since been denied grant money or have opted to delay SBIR submissions in the hope that this issue will be resolved," BIO stated. "As a result, work on life-saving and life-enhancing technology is being postponed."

Congress is facing a deadline next month to pass legislation ensuring that the grant programs will continue.

A measure passed recently by the **House** would end what BIO leaders have characterized as "discrimination" against venture-backed businesses. A similar measure advancing from a **Senate** committee also would address the issue, but approval is awaiting action by the full Senate.

Private-sector investors often have been reluctant to back company R&D projects at the earliest stages, when success is so uncertain and many years away.

Federal officials should view this type of technology development as a potential partnership between the SBIR program and venture capitalists, said Kevin Sweeney, chairman of the life sciences practice group at **Polsinelli Shalton Flanigan Suelthaus** in Kansas City.

“The government ought to encourage earlier-stage venture capital investments in promising technologies,” Sweeney said. “To have the SBA be an active partner would facilitate the investments.”

The Kansas Technology Enterprise Corp. is redoubling its work to help entrepreneurs in the region compete for SBIR grants.

The SBIR grants are so attractive because they don't diminish an entrepreneur's ownership of his or her business, said KTEC's Taylor. Plus, they are awarded on a competitive basis, which can serve as a helpful endorsement for small companies obtaining the federal money.

“We are focused on commercialization and results,” Taylor said. “Studies have shown that people who get SBIR funding have a greater likelihood of success.”

On the Web

For more information about the Small Business Innovation Research or Small Business Technology Transfer programs, go to www.sbir.gov/about/index.htm.

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