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## **R&D Funding for New York's Tech Companies**

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The federally funded Small Business Innovation Research (SBIR) program offers \$2 billion annually to small businesses to conduct research and development. Tech firms are increasingly taking advantage of the program to fund their development activities.

“Businesses should be aware that the SBIR program offers real dollars for development. Avoiding the program will ignore serious opportunities for growth,” notes Greg Cumberland, Vice President of Strategic Initiatives at Gaia Herbs.

“You can look at our operation and see the benefit of SBIR.” says Cumberland of Gaia’s operations. “We’re not doing rocket science here, but our SBIR-funded research is benefiting our business.” Gaia’s operation recently expanded to Costa Rica where they have established a small tropic herb farm. “We can now grow product year-round.”

### **Start-Up Research Funding**

SBIR Phase I awards are typically in the \$100,000 range and are best described as a research feasibility study. Phase I “is a \$100,000 investment for the agency to get to know you,” says Gail Greenwood, who, with her husband Jim, provides SBIR consulting services nationally through their company, Greenwood Consulting Group.

The value of SBIR funding is widely recognized. “SBIR is part of the overall funding strategy that any company should use if they are looking for seed capital,” advises Technology Program Director Franklin Madison, of the Industrial Technology Assistance Corporation (ITAC) in New York City.

Dr. Bob McMahan has benefited from SBIR funding. As a Harvard professor in 1986, Dr. McMahan felt frustration with academia. This combined with “growing up in an entrepreneurial household” motivated his start-up. “I started my company from my kitchen table in Boston with an SBIR grant from NASA,” reflects McMahan. McMahan Research Laboratories produces light-measurement and spectral-measurement equipment. His initial Phase I and II NASA SBIR awards exceeded \$1 million.

With the help of SBIR funding, Children’s Progress Inc. of New York City has also benefited, developing academic assessment tools to support student learning. To date, the company has been awarded close to \$1 million in SBIR research funding from the National Institutes of Health and the National Science Foundation. Reflecting on his SBIR experience, President and CEO Kevin Greaney’s most important piece of advice to new SBIR applicants is “patience. Nothing happens over night.” Case in point, the company’s first SBIR application was rejected and the resubmission was not accepted immediately. “It is, at the very least, a nine-month process.” In

reference to SBIR success of Children's Progress, Franklin Madison notes, "Qualifying for SBIR funding demonstrates a great deal of technical merit."

### **SBIRs Build Value**

"The real money is found in the Phase II awards," notes Gail Greenwood. "You are trying to establish credibility in Phase I to convince the agency to invest in you for Phase II."

"SBIR grants increase the value of the company. Consider it 'risk mitigation' through a relationship with NIH," says Joe Smith, CEO of [Syntherica Corporation](#). Syntherica is Smith's second SBIR-funded company. His first company, Novalon Pharmaceuticals, won five NIH SBIR awards and was sold to Karo Bio AB in 2000.

"The SBIR process can free the young company to think about business applications. It helps focus the company before turning to VCs," says Dr. Stephen Friedman, president and CSO of Syntherica. "An R&D company needs to build value through SBIR grants."

The value building process of SBIR funding has, for example, enabled Children's Progress to leverage equity funding from angels and venture capitalists to further its growth. "Our equity totals in excess of \$8 million," notes Greaney. "At this stage, we are poised to expand and hire additional researchers."

### **Keep Your Eye on Commercialization**

The SBIR program is for established companies as well as start-ups. "We were a well-established herbal dietary supplement company with national distribution before becoming aware of SBIRs," says Cumberland. In 2001, the company entered into the SBIR program in a big way—its first SBIR award, for Echinacea research, exceeded \$2 million. Gaia Herbs was formed in 1987, and its 85 employees manufacture and distribute herbal products to a worldwide market. Gaia's recent SBIR awards have enabled it to perform extensive research on its line of herbal products. Gaia has won SBIR awards from both the NIH and USDA.

"To win an SBIR, the proposed research must have a high degree of novelty and relevance. It also must have a high quality research team and collaborators," advises Cumberland.

"SBIR is the enabler," says Bob McMahan. "But you must keep your eye on commercialization." Dr. McMahan should know since SBIR funding fueled McMahan Research's growth. From his kitchen table to the time the company was acquired in 1999, it grew to employ over 100 people in Massachusetts and North Carolina. Dr. McMahan is currently North Carolina's senior advisor to the Governor for Science & Technology.

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For information about New York's SBIR resources, visit the ITAC Web site [www.itac.org](http://www.itac.org). ITAC's SBIR specialist Franklin Madison can be reached at [fmadison@itac.org](mailto:fmadison@itac.org). The [New York State Office of Science, Technology & Academic Research \(NYSTAR\)](#) leads the state's research and development efforts including support for the SBIR/STTR program. Other SBIR resources are available at the SBIR Gateway, [www.zyn.com](http://www.zyn.com)

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