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Texas tech firms missing out?

Grant program is 'a hidden secret'

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By VICTOR GODINEZ / The Dallas Morning News

David Felio used his federal grant to develop navigation and autopilot systems for unmanned aerial vehicles.

Catherine Wyatt used her money to create devices that let severely disabled people feed themselves.

While the two technologies are unrelated, they were both funded through Small Business Innovation Research, a federal program designed to help small and start-up tech companies get on their feet.

The program doled out more than \$2 billion in grants and contracts last year to firms working on products that are likely to have some government applications.

But while innovators like Mr. Felio and Ms. Wyatt have benefited from the program, many other Texas technology entrepreneurs and small-business owners are leaving millions of dollars on the table, experts say.

Texas, as it has for years, got a relatively small slice of the pie.

Experts say the program is unknown to many of the tech professionals it's intended to help.

"In 2002, we got about 220 awards in Texas, which places us about ninth in the country," said Clyde Higgs, executive director of business incubator Tech Fort Worth.

"Which is not terrible, but with a state that's probably ranked No. 3 in the nation as far as R&D," he said, "you would think our SBIR numbers would be somewhat consistent with that, which they're not."

While Texas – and the Dallas-Fort Worth area in particular – may be lagging when it comes to the grants, Mr. Higgs and others are working to change that.

Tech Fort Worth and the Greater Dallas Chamber of Commerce are planning a seminar for early this summer to educate local entrepreneurs and small-business owners on how to secure the grants.

Mr. Felio's Carrollton firm, Geneva Aerospace, got off the ground thanks to a boost from the program.

Started in 1997, Geneva makes guidance and autopilot systems for unmanned aerial vehicles, the exotic

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Engineer Michael Trumble works on a program at Geneva Aerospace in Carrollton, a firm that has gotten a financial boost from Small Business Innovation Research.

robotic aircraft that became one of the signature technologies of the recent wars in Afghanistan and Iraq.

Mr. Felio, president and chief executive at Geneva, said raising money from venture capital investors wouldn't have been difficult, given the financial bonanza available to just about any tech-related company in the late 1990s.

"We were, being engineers, kind of conservative in nature," he said. "We just wanted to go that funding route. We were able to retain 100 percent ownership of the company."

Geneva is frequently cited as a model for other local tech firms to emulate when it comes to pursuing the small-business grants.

The company has received a total of almost \$1.2 million in funding since 1997, had \$6.5 million in revenue last year and hopes to hit \$10 million in 2005.

Falling behind

"They're a bit of a hidden secret," Mr. Felio said. "Defense community people end up hearing about them, but in the general public, a lot of people don't know."

Mr. Higgs said that just as Texas is lagging behind the rest of the country when it comes to the federal program, the Dallas-Fort Worth area is falling behind the rest of the state.

"I'm not sure why their small companies are more attuned to SBIR than ours are, but the numbers will tell you that most of the grants are going to Houston and Austin, and probably less than 10 percent are going to the metroplex's small companies," he said. "But we're going to fix that."

In fiscal 2003, Texas was awarded 276 of the tech grants, ranking sixth nationally, but just ninth in terms of total dollars awarded at \$69.7 million.

Results for 2004 – expected to top \$2 billion nationally – will be released this month.

Individual attention

The Small Business Administration oversees the program, but the money comes from individual federal agencies.

Each agency devotes about 2.5 percent of its overall budget to the SBIR program.

The National Institutes of Health funded Ms. Wyatt's company, Mealtime Partners in Azle.

The five-person company makes an electronic device that serves bite-size portions of food.

Ms. Wyatt didn't expect much when she applied for initial funding in 1996.

"We wrote a proposal and it was funded, and, honestly, we were quite surprised," she said. "We were delighted."

Since then, the NIH has invested more than \$1 million in Mealtime Partners.

Ms. Wyatt said the device appeals to mentally and physically disabled people who depend on caretakers for just about every other need, but she didn't expect a large medical device firm to fund the technology.

"If we weren't doing this project, nobody would be," she said. "Because it's never going to be a VCR or DVD player as far as market size. It isn't of interest to a lot of the bigger companies. It just isn't the moneymaker they need. Yet it's going to be a healthy industry."

Ms. Wyatt said Mealttime Partners is now pursuing larger sources of funding, such as venture capital investment, to complement the initial SBIR money.

Biggest impact

Since the Defense Department has by far the biggest budget of any federal agency, it hands out the greatest amount of tech funding.

Allen-based Mustang Technology Group LP has received more than \$3 million in contracts from the Defense Department under the SBIR program.

Mustang makes radar applications, such as a system that can be mounted on a military Humvee to detect incoming rocket-propelled grenades and then tell an onboard defense system to shoot the rocket out of the air.

Mustang did about \$5 million in sales last year and is growing.

"We've bootstrapped it the whole way," said president R. Kent Lowder. "Venture capital funding, that's essentially a form of debt, which is kind of what we're trying to avoid."

Mr. Lowder said that federal agencies are more comfortable investing in companies that might not pan out, but that doesn't mean getting a grant or contract is easy.

He said agencies will often receive as many as 15 or 20 funding requests for a single proposal and approve only one of the requests.

The dollar figures may be small compared to the multimillion-dollar investments tech companies often get from the \$20 billion venture capital industry, but SBIR money is not meant to replace venture funding or an initial public offering, Tech Fort Worth's Mr. Higgs said.

"This is a bridge," he said. "This is not going to sustain you, but this is good money for doing a proof of concept and getting you over those first few milestones."

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LEADING STATES

Here's a look at the 10 states that received the most SBIR funding in fiscal 2003. Experts say small tech firms and entrepreneurs in Texas aren't taking full advantage of the program:

| Rank | State | Total Awards | Total Dollars |
|------|---------------|--------------|---------------|
| 1 | California | 1,225 | \$385,672,622 |
| 2 | Massachusetts | 830 | \$242,349,779 |

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|----|--------------|-----|--------------|
| 3 | Maryland | 325 | \$96,583,463 |
| 4 | Virginia | 364 | \$96,533,591 |
| 5 | Colorado | 291 | \$80,935,801 |
| 6 | New York | 239 | \$78,727,244 |
| 7 | Ohio | 237 | \$74,456,522 |
| 8 | Pennsylvania | 225 | \$73,032,625 |
| 9 | Texas | 276 | \$69,707,720 |
| 10 | Michigan | 128 | \$42,059,369 |

SOURCE: Small Business Administration

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