



Financing an SBIR-Eligible Company

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William N. Wofford



OVERVIEW

SBIR funding can be a key catalyst in moving discoveries from the lab to the marketplace.

But: SBIR funding is only one part of the solution

And: Other funding activities can jeopardize SBIR funding

So: Plan ahead, to make the other funding compatible with SBIR funding



FUNDING SOURCES AT VARIOUS STAGES OF DEVELOPMENT

Company Stage	Key Activities	Capital sources
Start up	Secure IP, develop business plan, conduct in-vitro studies	Founders, STTR/SBIR , other grants
Seed stage	Early pre-clinical studies, build management team	Angels, SBIR/STTR , strategic partners, other grants, venture capital?
Venture stage	Advanced pre-clinical through Phase II trials, complete management team, business development	Venture capital, venture lenders, strategic partners, government contracts, SBIR(?) , other grants?
Growth/IPO stage	Phase III and commercialization	Public markets, hedge funds, strategic partners, product sales, government contracts



Why is SBIR Funding Such a Desirable Source of Capital?

It's a grant – unlike a loan, it does not need to be repaid.

It's non-dilutive – the government does not get part of your company

It can be recurring – success at Phase I can lead to additional funding.

It provides validation – it shows that *someone* believes in the science.

It's available – A source of capital when other funds are not available

Bottom line: SBIR funding may be the difference between success and failure for a startup or seed stage company.



So, what's the catch?

Limited amounts –

Limited uses -- funds must be used for specific purposes (limited overhead and legal, no commercialization)

Timing – funding cycles may not fit your needs

Accounting -- strict rules apply and painful audits await

Must work for grants -- minimum efforts requirements mean the company can't be a virtual organization)

51% ownership rule – more on this in a moment

Bottom line: Sooner or later, the company will need other sources of capital



51% Ownership Rule – Simply stated

To be eligible for an SBIR/STTR grant, a recipient must be a for-profit business concern at least 51% owned and controlled by one or more individuals who are citizens of, or permanent resident aliens in, the United States

Headcount and revenue limits also apply.

51% Ownership Rule – Compliance Basics

For founders or key contributors who are citizens of, or permanent resident aliens in, the United States, issue shares.

For founders or key contributors who are not, consider granting stock options or deferred compensation (but beware 409A).

Confirm that angel investors are U.S. citizens or permanent residents.



51% Ownership Rule – Advanced Structures

As new investors invest during the seed and early venture stage, structure investments to preserve SBIR eligibility

- Convertible Debt
- Separate Research and Development Company.
- Voting Trusts





Questions?

Hutchison Law Group PLLC

William N. Wofford

bwofford@hutchlaw.com

919.829.4292

