

# United States Senate

WASHINGTON, DC 20510

October 21, 2003

The Honorable Hector V. Barretto  
Administrator  
Small Business Administration  
409 Third Street, SW  
Washington, DC 20416

Dear Administrator Barretto:

I'm writing to urge the Small Business Administration to restore the eligibility of venture-backed biotechnology and other start-up companies for Small Business Innovation Research (SBIR) grants.

As you may know, I was one of the principal sponsors of the legislation creating the SBIR program in 1976 as a pilot program of the National Science Foundation. After its successful early years, the program was expanded in 1982 and now includes 13 major federal agencies. Since that expansion it has awarded nearly 50,000 grants totaling \$8.6 billion nationwide. In 2003, SBIR it awarded \$1.6 billion grants to small firms.

The SBIR program has been a highly successful example of a federal initiative to encourage economic growth and job creation in the high technology and biotechnology industries. Small businesses with innovative R&D projects receive grants to fund exploratory research that otherwise would not have been undertaken. SBIR provides needed seed capital, enabling entrepreneurs to launch their ideas and eventually bring new technologies to marketplace.

Recent changes in the SBA's interpretation of eligibility standards for SBIR grants, however, now disqualify many start-up companies with venture capital backing. To be eligible for a grant, a small company must be at least 51 percent owned by one or more individuals. Interpreting "individuals" to mean only men or women, has wrongly resulted in the disqualification of companies with venture capital backing from the SBIR program. It also undermines job creation and prevents new technologies reaching fruition at a time when we should be encouraging investment by our firms.

Several Massachusetts firms have contacted me to express their concern over SBA's new interpretation of these eligibility standards. As the nation's leader in biotechnology and high-technology, Massachusetts relies on the SBIR program to fund early-stage companies, and has consistently been one of the top recipients of SBIR grants. The state's small start-up firms are typically awarded 15% of total SBIR funds, and, the Boston area is the number one recipient among metropolitan regions nationwide.

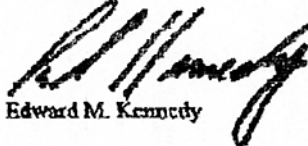
Venture capital has a vital role in the financial support of the very companies that the SBIR program is intended to benefit. The SBA's unfortunate interpretation will prevent innovative small biotech companies in my state from participating in the SBIR program. Other states are likely to have this difficulty as well, and the result will be an adverse impact on the biotech industry and on the economy as a whole.

Clearly, this new interpretation undermines an important funding source for start-up companies in Massachusetts and across the nation, especially in biotechnology and life sciences.

I strongly urge that SBA to act immediately to restore eligibility for SBIR grants to venture-backed biotechnology and high-tech start-up companies. There is no justification for the SBA to suddenly change its interpretation of SBIR eligibility standards that have a proven track record of serving so many of our nation's most enterprising firms so well. It certainly was not the intent of Congress to restrict the program in this way.

With respect and appreciation,

Sincerely,

A handwritten signature in dark ink, appearing to read "Ed Kennedy", written in a cursive style.

Edward M. Kennedy