

STATEMENT OF JOHN CLANTON

CHIEF EXECUTIVE OFFICER

LYNNTECH, INC.

Before The

HOUSE SMALL BUSINESS COMMITTEE

WASHINGTON, D.C.

21 MAY 2014

Chairman Graves, Ranking Member Velazquez and Members of the Committee, it is an honor and privilege to appear before you today to provide the views of Lynntech, Inc. on the implementation of the SBIR Reauthorization Provisions as contained in the FY 2012 Defense Authorization Act. My name is John Clanton and I am the Chief Executive Officer of Lynntech, Inc., a small business based in College Station, TX. Lynntech was founded in 1987 and I purchased the company in 2007 for the express purpose of commercializing the technologies that had been developed by Lynntech personnel. Lynntech currently has 90 employees, 29 of which are PhD's. Lynntech's parent company, Astin Partners of which I am also CEO, has interests in real estate, data centers, and airport operations, which gives Lynntech the benefit of a broadly diversified ownership structure capable of providing strong financial support for the high risk endeavor of technology development. Currently, Lynntech has about 70% of its SBIR contracts from DOD and the remainder largely from NIH. Since I purchased the company, Lynntech has received 5 post-phase II contracts from DHS and DOD, two of which hold the promise of being very successful commercial market opportunities.

Among other things, SBIR reauthorization provided for modernization of a number of SBIR policies that Lynntech broadly supported. It was clear that the SBIR program was sustained by a broad bi-partisan coalition of members that saw the value in technological innovations developed by small businesses.

In Lynntech's view, there were four initiatives that were propelling the desire for modernization forward.

First, there was a belief that venture capital owned firms should be afforded an opportunity to participate in the program. While Lynntech had no strong views in regard to majority venture capital owned firms participating in the program, we did recognize that denying access to VC owned firms could potentially deny small business with an alternative financing technique as a technology reached maturity.

Second, there was a strong desire to encourage small businesses to transition their technologies to commercial and government markets. The legislation made it clear that both small businesses and the Government should focus on the transition of these technologies. For the companies, it has been anticipated, and was seen in January 2014, rules that would mandate

standards for transition success from Phase I to II and beyond. In addition, the legislation mandated that the Government agencies should focus on ensuring that SBIR-funded technologies should be given preference for inclusion in Government funded acquisitions. This was particularly the case for the Defense Department, and it is this subject that is the core of my testimony today.

Third, there was a belief that SBIR policymakers needed more tools to support the development goals for any given technology. Thus, SBIR program managers and policymakers could award multiple Phase II contracts for technologies which are not quite ready for Phase III funding. In addition, agencies were prohibited from inviting Phase II proposals from Phase I awardees. This provides an opportunity for all technology developers who have already completed the competitive process, to propose further development of their proof of concept.

Finally, in recognition that Agencies did not have the quantitative tools to properly understand the impact of the SBIR program, the Committee asked for a substantial increase in reporting and data base management.

Let me address each of these initiatives in turn and provide my assessment as a long-time SBIR contractor.

First, Lynntech has taken the position since 2008 that we do not care who owns what company. We are happy to compete against any other small business for any particular technology. We believe it is the small business element, not the funding source, that feeds the creative approach to solutions.

While we see no threat to SBIR competition, we do have an industry view that the Committee may find helpful. We believe that the allowance of a certain percentage of awards to VC funded firms should not be interpreted as a target level of awards to FC funded firms.

We note that the NIH is preparing to follow the legislative requirements that allow for a certain portion of the SBIR program to be awarded to majority-owned venture capitalists small businesses. Given the size of the biotech sector owned by VCs, we believe that this should continue to allow for effective competition for NIH projects.

In the Department of Defense, we are concerned that using the allowable level of awards as a target will create a non-competitive market. The participation level of VC financing in technology development firms which specialize in the Defense market is limited. The valuation multiples and the economic fundamentals are simply not there. Small numbers of highly specialized products do not generate the returns that high-risk capital is looking to achieve.

As a result, Lynntech believes that if the implementation of policy effectively creates target VC award levels out of what was allowable VC award levels, it will reduce the effectiveness of the competitive process and lead to diminished success in the SBIR program. Forcing the DOD to compete up to 15% of the SBIR awards to only those firms owned by majority VC firms will diminish the competitive pool.

The second major thrust of the legislation was to enhance the technology transition effort through holding SBIR firms to transition success thresholds, as well as holding agencies responsible for achieving commercialization objectives. We applaud the initiative of this Committee to pioneer and incorporate these methods of joint accountability from both the small business and the agency. We believe that holding companies accountable for using Federal dollars effectively, and requiring agency participation in commercialization was one of the most important parts of the legislation.

Unfortunately, as it relates to the DoD, the transition support that the Committee was attempting to achieve has been slowed by the failure of the Defense Department to ensure that its processes for technology insertion in major acquisitions are improved and modernized. To date, we have seen nothing that would suggest that an effective, Department wide initiative to implement the statute has taken place.

Too often, Lynntech personnel find themselves dealing with SBIR personnel that have not been trained at all on the new procedures put in place by the statute. We still have DOD personnel who complain about having to execute a “small business welfare program”; personnel who do not realize that they do not have the authority to deny submission of Phase II proposals from any of the Phase I awardees; and where the process for implementing the new rules has not been clearly articulated.

For example, the Air Force still has too many people who do not understand that they need to clearly articulate what the Phase II proposal process will look like in an era where there are no invitations. Another “real life example” is Army SBIR personnel who do not understand that it is possible to make multiple Phase II awards, where an Acquisition Program Manager is indeed interested in further development . What is more worrisome is when the program TPOC goes looking for assistance from the Army SBIR office, there is none to be found or the guidance is not clear.

Even the Navy, which Lynntech has publicly praised for its effective leadership in the SBIR program, has too many people in the Research and Development community who actively work to kill the technology being developed, not because of technical merit, but because of personal biases or the SBIR technology is a threat to their preferred technical approach

In fact, Lynntech has been told that SBIR technologies are not desired because of SBIR data rights. There is growing concern that some SBIR technologies have been transitioned without regard to the small business rights to data ownership.

All of these comments indicate that the transition effort requires more than just a motivated SBIR company, it requires an informed and motivated agency presence as well as leadership from Senior Acquisition Executives to ensure that all APMs are utilizing the full range of technologies that the Federal Government has already paid for.

The third major thrust of the legislation was to give the SBIR policy makers additional tools in order to ensure that sufficient funding exists to fully develop nascent technologies. I have touched on some aspects of that issue already but I will go on to note that while the

Congress has provided the tools; not all agencies have availed themselves of those tools. Lynntech continues to be concerned that SBIR officials in the field are either unaware of the tools or they have chosen to ignore them.

Finally, the last major thrust of the legislation was to provide for enhanced information gathering and the perfecting of existing databases. It is incumbent on Government to ensure that the databases used to score performance are accurate, particularly where decisions may lead to termination of an individual company from participation in the SBIR program. Such termination decisions can be a life or death determination for the SBIR firm. The Agencies have complained about the extent of reporting requirements but if the goals of the Reauthorization language are to be achieved, then the data bases and the information they provide must be the best that we can achieve.

In summary, Lynntech believes that the Reauthorization legislation achieved much of what it was looking to achieve. But Congressional oversight still needs to be provided so that the Committee can ensure that there is Agency compliance with the intent of Congress. Hopefully, good Agency compliance with the statute will mean that the next round of Reauthorization scheduled for FY 2017 will require less tinkering and more positive reporting on the success of SBIR transition.