

ONE NORTH CAROLINA SMALL BUSINESS FUND
YEAR-END REPORT TO THE JOINT LEGISLATIVE
COMMISSION ON GOVERNMENTAL OPERATIONS

As Required by §143B-437.83 of the
North Carolina General Statutes

Program Status as of September 1, 2008

***NOTE: THIS REPORT COVERS
ALL FOUR QUARTERS
OF FY 2007-2008***

Submitted by John Hardin
Acting Executive Director
North Carolina Board of Science and Technology

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STATE OF NORTH CAROLINA
DEPARTMENT OF COMMERCE
NORTH CAROLINA BOARD OF SCIENCE AND TECHNOLOGY

September 12, 2008

FROM: John Hardin, Acting Executive Director, NC Board of Science and Technology

SUBJECT: One North Carolina Small Business Fund Year-End Report to the Joint Legislative Commission on Governmental Operations

As Required by §143B-437.83 of the North Carolina General Statutes

Program Status as of September 1, 2008 (**NOTE: THIS REPORT COVERS ALL FOUR QUARTERS OF FY 2007-2008**)

BACKGROUND

The federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs grant competitive awards to small businesses for both Phase I proof-of-principle research and development and Phase II early stage product development. The SBIR/STTR Programs were first enacted in 1982 as a part of the Small Business Innovation Development Act; under the programs, federal agencies with extramural R&D budgets in excess of \$100MM are required to allocate a 2.5% set-aside for small business. Last year the programs awarded ~\$1.8 Billion (compared to ~\$750MM in venture capital over the same period) to small business across the United States.

The One North Carolina Small Business Program entails two programs. The **SBIR/STTR Phase I Matching Funds Program** and the **SBIR/STTR Phase I Incentive Funds Program**. This report provides information for both programs.

MATCHING FUNDS PROGRAM SUMMARY

The North Carolina SBIR/STTR Phase I Matching Funds Program awards matching funds to North Carolina based small businesses that have received an SBIR or STTR Program Phase I award.

The North Carolina Board of Science and Technology, a division of the North Carolina Department of Commerce, administers the Program. Under the Program, awards can be made to eligible companies for up to 100% of a firm's federal Phase I SBIR/STTR Program award, up to the maximum amount of \$100,000, until funds available for the Program have been exhausted. Applicants who receive Matching Awards receive 75% of the award amount upon receipt of an SBIR/STTR Phase I award, and receive the remaining 25% of the award if their Phase I report is accepted by the funding agency and they submit a related Phase II application to the funding agency. Phase II SBIR/STTR awards can exceed \$1Million.

PURPOSE

The purpose of the Matching Program is to foster job creation and economic development in North Carolina by increasing the competitive position of North Carolina small businesses in attracting SBIR and STTR grant funding, and to provide an incentive for Phase I award-winning firms to participate in the more substantial Phase II program. The goals of the Matching Program are to:

1. Increase the amount of federal research dollars received by North Carolina small businesses;
2. Help North Carolina companies bridge the funding gap period between the final Phase I payment and the first Phase II payment in the federal SBIR/STTR Program;
3. Increase the intensity of the research conducted under Phase I, making North Carolina small businesses more competitive in the competition for Phase II funds; and



STATE OF NORTH CAROLINA
DEPARTMENT OF COMMERCE
NORTH CAROLINA BOARD OF SCIENCE AND TECHNOLOGY

4. Encourage the establishment and growth of high-quality, advanced technology firms in the State of North Carolina.

FY 2007-2008 SBIR/STTR MATCHING FUNDS PROGRAM PROGRAM SUMMARY

- \$4,830,000 appropriated to Fund in 2007-2008 Budget Act.
- Annual Program Solicitation released in late July 2007.
- Grants totaling \$4,605,964.28 have been made thus far (as of September, 1, 2008) under the FY 2007-2008 program to a total of 48 North Carolina Small Businesses across the state. One additional grant (for approximately \$70,000) is still pending, as the company is currently negotiating the grant award amount with the SBIR-granting federal agency.
- In 2007-2008, award levels were set at 100% of a firm's federal SBIR/STTR Program award, up to the maximum amount of \$100,000.
- ****NOTE:** Encumbered and Paid amounts below differ due to the *two-stage nature* of grants made under the program. Companies are paid 75% of the encumbered grant amount upon award. The remaining 25% is paid after program performance/completion criteria are met. Payment for some grants is pending.

Grantee Organization	Encumbered	Paid
APPLIED QUANTUM TECHNOLOGIES, INC.	\$98,950.00	\$74,212.50
CLINICAL TOOLS, INC	\$100,000.00	\$75,000.00
TRIANGLE POLYMER TECHNOLOGIES, INC	\$99,957.50	\$99,957.50
KYMA TECHNOLOGIES, INC.	\$99,992.00	\$74,994.00
PREMITEC, INC.	\$87,680.00	\$65,760.00
3-C INSTITUTE FOR SOCIAL DEVELOPMENT, INC.	\$100,000.00	\$75,000.00
COGNOSCI, INC.	\$100,000.00	\$75,000.00
ADVANCED LIQUID LOGIC, INC	\$100,000.00	\$75,000.00
3F, LLC	\$100,000.00	\$75,000.00
ALDERON BIOSCIENCES, INC.	\$100,000.00	\$75,000.00
ENTERTAINMENT SCIENCE & VIRTUAL HEROES JOINT VENTURE	\$100,000.00	\$75,000.00
INTERNATIONAL ASSOCIATION OF VIRTUAL ORGANIZATIONS, INC.	\$54,900.00	\$41,175.00
AFFINERGY, INC.	\$100,000.00	\$75,000.00
SOUTHEAST TECHINVENTURES, INC.	\$100,000.00	\$75,000.00
INSITUTEC INC.	\$100,000.00	\$75,000.00
NITRONEX CORPORATION	\$99,784.00	\$74,838.00
CORVID TECHNOLOGIES	\$99,451.23	\$0.00
ZEN-BIO, INC	\$86,730.00	\$86,730.00
VALENCELL, INC.	\$100,000.00	\$75,000.00
MORPHORMICS, INC	\$100,000.00	\$100,000.00
HEALTH OUTCOMES, INC.	\$99,811.00	\$74,858.25
DOT METRICS TECHNOLOGIES	\$99,887.00	\$74,915.25
MRI CARDIAC SERVICES, INC	\$60,618.00	\$45,463.50
MERCURY SCIENCE, INC.	\$95,000.00	\$95,000.00



**STATE OF NORTH CAROLINA
DEPARTMENT OF COMMERCE
NORTH CAROLINA BOARD OF SCIENCE AND TECHNOLOGY**

VIRTUAL REALITY AIDS, INC.	\$100,000.00	\$75,000.00
PRECISION BIOSCIENCES	\$100,000.00	\$75,000.00
MATERIALS INNOVATION TECHNOLOGIES	\$99,978.55	\$74,983.91
PROTOCHIPS, INC.	\$100,000.00	\$0.00
LIQUIDIA TECHNOLOGIES, INC.	\$100,000.00	\$75,000.00
ENDLS OPTICS	\$100,000.00	\$75,000.00
ZUMATEK, INC.	\$100,000.00	\$75,000.00
PRECISION HUMAN BIOLABORATORY INC.	\$99,632.00	\$74,724.00
CYTEX THERAPEUTICS, INC.	\$100,000.00	\$75,000.00
VADUM INC	\$69,901.00	\$52,425.75
SCRIBNER ASSOCIATES, INC.	\$99,953.00	\$74,964.75
ALDITRI TECHNOLOGIES, INC.	\$100,000.00	\$75,000.00
VERITASCNC INC.	\$100,000.00	\$75,000.00
VASCULAR BIOSCIENCES	\$100,000.00	\$75,000.00
AUGER COMMUNICATIONS, INC.	\$100,000.00	\$75,000.00
HERMES, LLC	\$100,000.00	\$0.00
INSECT DIET AND REARING RESEARCH, LLC	\$80,000.00	\$60,000.00
INNOVATION RESEARCH AND TRAINING, INC.	\$100,000.00	\$75,000.00
AP SOLUTIONS, INC.	\$98,746.00	\$74,059.50
GRASSROOTS BIOTECHNOLOGY, INC.	\$100,000.00	\$0.00
INTEGRATED LABORATORY SYSTEMS, INC. (ILS)	\$100,000.00	\$0.00
VESTA THERAPEUTICS	\$100,000.00	\$0.00
THE SANDBOX LEARNING COMPANY	\$74,993.00	\$0.00
TRIAD DIGITAL MEDIA, INC.	\$100,000.00	\$0.00
2007-2008 Program Totals (To Date)	\$4,605,964.28	\$2,969,061.91
Current Budget	\$4,830,000.00	
Encumbered	\$4,605,964.28	
Balance	\$224,035.72	

One additional grant (for approximately \$70,000) is still pending, as the company is currently negotiating the grant award amount with the SBIR-granting federal agency)



**STATE OF NORTH CAROLINA
DEPARTMENT OF COMMERCE
NORTH CAROLINA BOARD OF SCIENCE AND TECHNOLOGY**

INCENTIVE FUNDS PROGRAM SUMMARY

The North Carolina SBIR/STTR Phase I Incentive Funds Program reimburses qualified North Carolina businesses for a portion of the costs incurred in preparing and submitting Phase I proposals for the U.S. Government's SBIR and STTR Programs. Under the Incentive Funds Program, the State issues qualified applicants a grant in the amount equal to 50% of their approved Phase I Proposal preparation costs, up to \$3,000. These grants are awarded to qualified applicants on a first-come, first-served basis, up to the limits of available funding. The North Carolina Board of Science and Technology, a division of the North Carolina Department of Commerce, administers the Program.

PURPOSE

The purpose of the Incentive Program, as with the Matching Program, is to foster job creation and economic development in North Carolina by increasing the competitive position of North Carolina small businesses in attracting SBIR and STTR grant funding, and to provide an incentive for Phase I award-winning firms to participate in the more substantial Phase II program. The goals of the Matching Program are to:

1. Increase the amount of federal research dollars received by North Carolina small businesses;
2. Help North Carolina companies bridge the funding gap period between the final Phase I payment and the first Phase II payment in the federal SBIR/STTR Program;
3. Increase the intensity of the research conducted under Phase I, making North Carolina small businesses more competitive in the competition for Phase II funds; and
4. Encourage the establishment and growth of high-quality, advanced technology firms in the State of North Carolina.



**STATE OF NORTH CAROLINA
DEPARTMENT OF COMMERCE
NORTH CAROLINA BOARD OF SCIENCE AND TECHNOLOGY**

FY 2007-2008 SBIR/STTR INCENTIVE FUNDS PROGRAM SUMMARY

- A total of \$430,000 allocated to Incentive Program in 2007-2008.
- Annual Program Solicitation released in late July 2007.
- Grants totaling \$104,240.68 have been made thus far (as of September, 1, 2008) under the FY 2007-2008 program to a total of 35 North Carolina Small Businesses across the state.
- In 2007-2008, award levels were set at 50% of a firm's approved Phase I Proposal preparation costs, up to \$3,000.
- 2007-2008 was the first year of this program. As a result, the participation level is lower than it will be in subsequent years.
- Encumbered and Paid amounts below differ, as payment for some grants is pending.

Grantee Organization	Encumbered	Paid
	\$104,240.68	\$73,293.82
INDEPENDENT LIVING RESOURCES, INC.	\$2,981.00	\$2,981.00
TRIANGLE POLYMER TECHNOLOGIES, INC	\$3,000.00	\$3,000.00
KYMA TECHNOLOGIES, INC.	\$3,000.00	\$0.00
3-C INSTITUTE FOR SOCIAL DEVELOPMENT, INC.	\$3,000.00	\$0.00
3F, LLC	\$3,000.00	\$3,000.00
NANOTECHLABS INC.	\$3,000.00	\$3,000.00
AFFINERGY, INC.	\$3,000.00	\$3,000.00
SOUTHEAST TECHINVENTURES, INC.	\$3,000.00	\$3,000.00
INSITUTEC INC.	\$3,000.00	\$0.00
CORVID TECHNOLOGIES	\$3,000.00	\$3,000.00
HEALTH OUTCOMES, INC.	\$3,000.00	\$3,000.00
PRECISION BIOSCIENCES	\$3,000.00	\$3,000.00
MATERIALS INNOVATION TECHNOLOGIES	\$3,000.00	\$3,000.00
TEOTTEN DIAGNOSTICS	\$3,000.00	\$3,000.00
TRIBOFILM RESEARCH, INC.	\$3,000.00	\$3,000.00
PROTOCHIPS, INC.	\$3,000.00	\$3,000.00
EDUCATIONAL CONSULTATION AND DEVELOPMENT INC.	\$3,000.00	\$3,000.00
HYDROSIZE TECHNOLOGIES	\$2,995.00	\$2,995.00
PHARMASYS, INC.	\$2,503.00	\$2,503.00
PRECISION HUMAN BIOLABORATORY INC.	\$3,000.00	\$0.00
NEUROCOG TRIALS, INC.	\$3,000.00	\$3,000.00
JENKEN BIOSCIENCES, INC.	\$2,878.08	\$2,878.08
COMMUNICATING FOR EFFECT, LLC	\$3,000.00	\$3,000.00
ALDITRI TECHNOLOGIES, INC.	\$3,000.00	\$0.00
TECHNICAL DESIGNS INC.	\$3,000.00	\$3,000.00
PROVAGEN, INC	\$3,000.00	\$3,000.00
ASKLEPIOS BIOPHARMACEUTICAL, INC.	\$3,000.00	\$3,000.00
SILVER SPRINGS LLC	\$1,936.74	\$1,936.74



**STATE OF NORTH CAROLINA
DEPARTMENT OF COMMERCE
NORTH CAROLINA BOARD OF SCIENCE AND TECHNOLOGY**

HERMES, LLC	\$3,000.00	\$3,000.00
NOVAN, INC.	\$3,000.00	\$0.00
BRIGHTON DEVELOPMENT, LLC	\$3,000.00	\$3,000.00
INNOVATECH, INC.	\$2,466.13	\$0.00
THE SANDBOX LEARNING COMPANY	\$1,717.13	\$0.00
SIRGA ADVANCED BIOPHARMA, INC.	\$3,000.00	\$0.00
VIRTUAL HEROES, INC	\$2,763.60	\$0.00
HORIZON PERFORMANCE	\$3,000.00	\$0.00
2007-2008 Program Totals (To Date)	\$104,240.68	\$73,293.82
Current Budget	\$430,338.02	
Encumbered	\$104,240.68	
Balance	\$326,097.34	

2007-2008 was the first year of this program. As a result, the participation level is lower than it will be in subsequent years. The balance of funds has been carried forward to the 2008-2009 program, which was funded at a lower level than in previous years. It is anticipated that all program funds in the 2008-2009 program will be exhausted before June 30, 2009.

CONCLUSION AND IMPACT

A handful of innovative states, including North Carolina, have seen the value of leveraging federal SBIR/STTR funds with State support. North Carolina's entrepreneurial community has enthusiastically heralded the One North Carolina Small Business Program's creation for its impact on growing the state's entrepreneurial economy, and for the fact that it reflects a substantial recognition by lawmakers of the importance of innovation and entrepreneurship to the economic health of the state. The program enables North Carolina's small businesses to generate the kinds of innovation critical for making the state a leader in the global economy.

In the program's first three years, the Board has issued more than 160 grants to North Carolina small businesses, totaling in excess nearly \$11,000,000. The grants are projected to create more than 100 new private sector jobs and to yield hundreds of patents, technology licenses, and products and services.