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Companies Weigh In on Definition of 'Small' Firm

Agency Considers Changing Size Limit

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 Washington Post Staff Writers
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One speaker's company can provide the government with teachers of 90 different languages. Another, who owned a Rockville biotech start-up, was concerned about competitors backed by wealthy venture capitalists. Others were trying to sell federal agencies office supplies or software or accounting services.

They had one thing in common: concern that proposals to rewrite the federal definition of what constitutes a "small business" could hurt their access to federal grants, loans and contracts.

Representatives of about 90 Washington area companies testified at a Small Business Administration hearing yesterday on whether the agency should change its system for determining which companies qualify for its programs to ensure that larger, more established firms don't participate. A proposal last year to base the determination largely on the number of employees was dropped after a storm of criticism, which prompted the SBA to schedule 11 hearings around the country to help shape a new size standard.

William C. Joern, vice president of the International Center for Language Studies Inc. in the District, said his company doesn't favor defining size by number of employees because the payroll fluctuates with the needs of government clients such as the Pentagon, State Department and FBI -- hardly a guide to the long-term size and solidity of his company.

Caroline Y. Watler, president of Circle Solutions Inc. of McLean, which has about 100 employees and a contract to run an information clearinghouse for one of the National Institutes of Health, said her company "wouldn't be eligible for 80 percent of our work" if a 50-employee limit were imposed for her field. "I hope you encourage us rather than put us out of business," she said.

Other speakers expressed more general concern about the trouble small companies have getting any government business at all. Johnny L. Brooks, managing director of Brooks & Associates LLC, an accounting firm in Largo, suggested that the agency consider a "micro" category for businesses such as his with less than \$500,000 a year in revenue.

Ulises V. Martinez of Fairfax's NOVUStar LLC questioned why so many companies seemed to stay "small" for so long. Danny Trehan, sales manager of Sita Business Systems Inc. of Chantilly, said agencies are buying the office equipment he sells from large firms such as Staples. That leaves him wondering, "What am I doing

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here?" he said.

Gary M. Jackson, the SBA's assistant administrator for size standards, said after the hearing that the speakers reminded him that it's difficult to "draw the line" that will define "small" for the 180,000 businesses around the country registered to qualify for government set-aside contracts.

The agency was criticized last year when its inspector general found that many giants of the contracting world were listed as getting small-business contracts. Jackson said that the findings didn't allege fraud but that they demonstrated a need to change the rules for situations where long-term contracts let a small company grow past revenue size limits.

He said it probably will be the end of the year before the SBA puts out another proposal on the size standards.

The hearings also considered how an infusion of venture capital affects small businesses.

Jonathan Cohen, president and chief executive of 20/20 GeneSystems Inc., said the agency should keep the rule as is: Companies with majority venture-capital ownership are barred from seeking Small Business Innovation Research (SBIR) grants.

Changing the rules to let the venture capitalists in, Cohen said, "could do great harm" to the biotech industry by siphoning money from smaller firms that don't have venture capital support -- often the very ones most likely to produce innovative devices and drugs.

Opponents of the current rule argue that many small innovative companies need access to both venture capital and federal grants to survive. "Bioscience companies tend to be doing a lot of cutting-edge research projects, and very often the funding they get from VC's they need to fulfill their near-term goals," said C. Robert Eaton, president of MDBio Inc., an organization of Maryland biotechnology firms. Federal grants "are a very important alternative source of funding for . . . longer-term research projects," he said.

Sen. Christopher S. Bond (R-Mo.) reintroduced legislation that would repeal the restriction, imposed in 2003 after an SBA administrative judge decided that venture-owned firms did not qualify as small businesses.

Gerard J. McGarrity is among those who hope the restriction will be lifted. Because of the rule, his Gaithersburg biotechnology firm, Intronn Inc., lost a \$600,000 SBIR grant it had been using to develop a treatment for cystic fibrosis. In 2003, the 16-employee firm got an infusion of venture capital that put it past the 51 percent ownership rule; as a result, the SBIR money was yanked.

"It was one of our earliest projects, and we simply had to cancel it. And we thought we had been making great strides in offering a new and innovative therapy for the disease," McGarrity said.

Intronn has since received more money from individual investors, pushing it back under the 51 percent limit and permitting it to qualify for federal grants again.

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