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SMALL BUSINESS INNOVATION RESEARCH PROGRAM

It is predictable that new technology management organizations, such as USET, will eventually profit from the licensing of their client's technology. However, the heavy front-end investment in establishing a technology portfolio and the minimum five-year period required to bring such technology to the marketplace causes understandable uneasiness. The inherently long development phase for products leads to questions of whether the initial investment was wise, clients are being well served, and the morale of operating personnel can be maintained before profitability is reached. We believe that moving a substantial portion of USET's client technology through the Small Business Innovation Research (SBIR) program not only responds to these questions but will lead to an increase in USET technologies reaching the marketplace.

The SBIR program was created in 1982 by Public Law 97-219. The law requires that all federal agencies with extramural R&D programs in excess of $100 million set aside 1.25 percent annually of their extramural R&D budget to fund the development of technology, which could assist in meeting the agency's mission, from small businesses (businesses having under 500 employees). In 1987, the Departments of Defense, Health and Human Services, Energy, Transportation, Agriculture, Education, and Commerce and National Aeronautics and Space Administration, the National Science Foundation, the Nuclear Regulatory Commission, and the Environmental Protection Agency committed $360 million to the SBIR program.

SBIR funding is awarded in two phases. The first phase, which can be up to $50,000 and last six months, is intended to prove the scientific and technical feasibility of the small business proposal. The second phase, which can be up to $500,000 and last for two years, is committed to the development of a prototype of the technology whose scientific and technical feasibility was proven in Phase I. Approximately one-in-eight proposals are awarded Phase I funding, but more importantly, nearly 40 percent of Phase I awards reach Phase II funding.

Since there is nothing in the law that would preclude a USET small business licensee from using USET controlled technology as a core of a SBIR proposal, USET and its clients can be major beneficiaries of the program. While agency solicitations are aimed to solve Agency problems, they have been sufficiently broad to presume that a home could be found for most technology USET controls. Since the agencies have interpreted the law as excluding universities and its investigators as "small businesses", organizations such as USET are in an ideal position to move its university technology through the innovation process by licensing small businesses looking for technology to develop with SBIR funding. Indeed given the continued development of our SBIR database, we could, within short order, identify the small businesses who have been most successful in competing for SBIR. We could further start with those small businesses closest to the university client creating the technology. Further, we could serve a social need by moving USET technology and attaching it to small businesses in those States that have been unable to benefit from the SBIR program.

Even though a university or its investigators cannot be recipients of SBIR awards, one-third of Phase I awards and one-half of a second phase award can be subcontracted by a small business awardee to a university. Indeed USET could condition the licensing of a small business on their subcontracting part of their SBIR award to the university who created the technology. Other factors make undertaking this approach attractive for USET. SBIR awardees can use their funding to file patent applications on USET technology and pay other consultating and service costs provided by USET.

Even the current belief that the inability of small business to obtain product liability insurance makes them unreliable licensees, seems to work to our benefit in the SBIR situation. The university community does not seem to recognize that the small business can be used as a vehicle to obtain SBIR funding for value added research and their marketing of a resulting product conditioned on obtaining product liability insurance. If they cannot, the product can be licensed to a company that can, subject to part of the royalty being shared with the small business.

Attached is a schematic that simplifies what we think USET can do under SBIR. We believe this to be a Win-Win possibility that could give USET a very positive new image with clients and the technology community.

Conclusions -

1. The cost principles identified would appear to enable USET to recover its actual costs from a successful SBIR awardee who USET assisted in gaining the award. The USET costs would be additive and would not therefore reduce the awardee's portion of the award.

2. In addition to recovering costs from a funded award, the cost principles appear to allow the payment of option fees for the technology as an indirect cost.

3. SBIR proposals could be the subject of USET technology

that in the past we made no effort to license because of its early stage of development. Given an award, we will have greatly increased the prospect of commercializing this kind of USET technology.

4. The debriefing statements available from agencies for rejected proposals are of great value in maintaining good relations with our clients.

5. The intent of the SBIR program is to assist small business entrepreneurs. Successfully transferring USET technology to these entrepreneurs as a vehicle for an SBIR award clearly adds to the importance of the program by opening it to technology ideas created anywhere in the world. We could assist in reversing the flow of technology to the U.S. Robert Maxwell may wish to embrace this initiative as the portion of his foundation intended to assist entrepreneurs.

6. Some of the conditions that we believe should be contained in the contract transferring USET technology to a small business licensee in addition to standard royalty or equity returns are:

   a. a promise to pursue Phase I and Phase II SBIR funding;

   b. that if funding is obtained, certain identified USET services will be paid for;

   c. patent protection, if appropriate, will be sought with USET's assistance and paid for out of SBIR funding;

   d. that the small business will have a first option to market the technology within a reasonable time and, if unable, USET will be able to license other manufacturers subject to a portion of the royalty return going to the small business;

   e. that failure to obtain product liability coverage will immediately permit USET to license other manufacturers subject to a portion of the royalty return going to the small business;

   f. that if USET licenses other manufacturers under the circumstances of d) or e) above, inventions, technical data or other know-how created by the small business licensee in performance of the SBIR award may be part of the manufacturing license at USET's discretion;

   g. that there will be an up front option fee from SBIR funding, if permissible;

h. that a percentage of the SBIR research funding shall be subcontracted back to the USET client who created the technology;

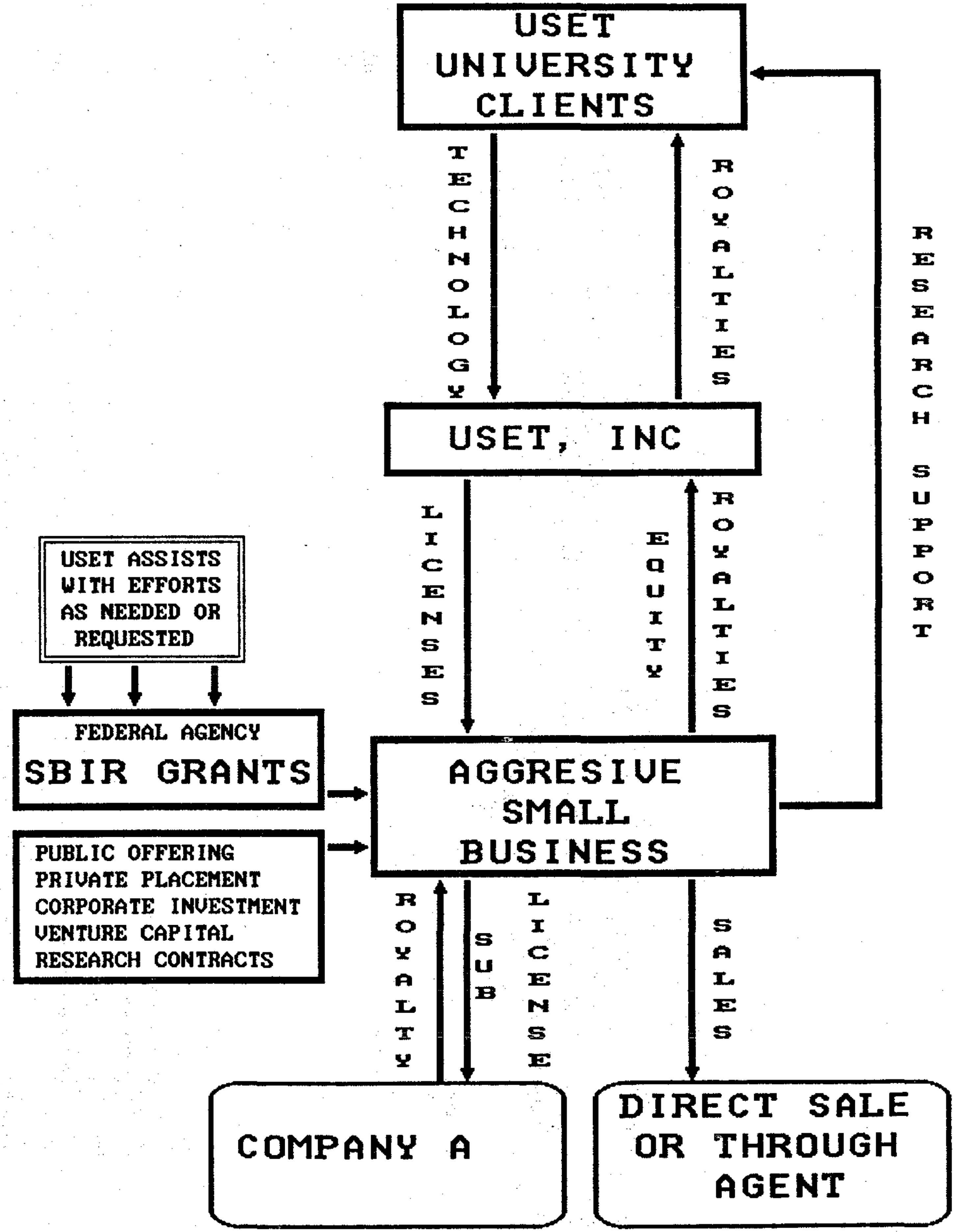
i. that all debriefing information obtained from a federal agency on rejected proposals will be shared with USET and the client creating the technology;

j. that the licensee agrees to disclose in the SBIR proposal to a federal agency that he is consulting with the USET client who originated the technology upon which the proposal is based; and,

k. that the small business will have a first option to further develop the technology if the SBIR proposal is rejected.

NL:k

Attachment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