

Clean tech startups should learn about government support



Insider view

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In 2006, the clean energy technology sector captured 10 percent of venture capital investments in the United States. At 34 percent of the total dollars invested in clean tech, Silicon Valley has the largest geographic share of venture capital investments. Various government funding programs for alternative energy development are already in place and recent policy goals announced by President Bush and California's greenhouse gas initiatives have fueled even further interest in clean tech. But do venture-backed startups know how to take advantage of the government's interest in supporting clean technology development?

For startup clean tech companies, the federal government can be an attractive supplemental funding source since some of the risks inherent in such research are effectively shifted to the public. The sharing of risk can make sense from a policy perspective since the public will ultimately benefit from advances in clean tech technology.

The federal government administers a number of research grant programs through various agencies. Most federal funds are provided to universities and other non-profit research institutions. However, some programs make research funds available to for-profit entities.

For example, the Small Business Administration provides R&D grants to small businesses and the Departments of Energy

and Commerce operate a large number of grant programs, some of which could be available to venture-backed companies. Applicants for these funds should be prepared to comply with the restrictions of the programs and to understand that, typically, only modest amounts are available. In addition, the government may request an ownership or licensing agreement in return for providing funding. Possibilities include the potential government ownership of any developed intellectual property, retaining March-in Rights (the ability to require licensing or to license third parties on its own), or the receipt of a non-exclusive, royalty-free license.

The most effective process for securing government grants usually involves:

Conducting extensive research of the available programs and their application and reporting criteria.

Engaging an experienced grant writer to properly address the often complex application requirements.

Consulting with legal counsel to assess potential intellectual property and tax issues.

Creating in-house mechanisms to benchmark the project and track the funding, particularly since grant programs require detailed reporting on the use and results of the funded initiative.

In addition to existing grants or contract programs, it is sometimes possible to seek Congressional appropriations for new research efforts, or a combination of funding from existing programs and new appropriations. The global and national importance of controlling greenhouse gases makes additional investment in this technology an attractive candidate for congressional support. As is the case with any significant congressional action, a carefully coordinated and politically sophisticated effort is needed to persuade Congress that funding for a major new research initiative is warranted.

Startups can improve the odds of obtaining government funding by securing support among key senior officials within the White House or other agencies of the executive branch as well as members of Congress and their staffs. The California Congressional delegation has historically been interested in the development of technology and many members of the delegation are in key positions to support such efforts. Some of the most important committees are the House Committee

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on Science and Technology, the House Committee on Energy and Commerce, the Senate Commerce Committee, and the Appropriation Committees of both Houses.

When pursuing funding opportunities, it is essential for companies to explain why their technology deserves funding and the specific benefits the initiative aims to produce. It also is useful to review case studies of successful coalitions to find out what strategies were followed.

The current efforts by the Silicon Valley venture capital, legal and political communities to focus the attention of policy makers and investors alike in the potential of clean tech are the start of a targeted approach that can be enhanced as companies learn more about R&D funding options and get involved in efforts to secure the funding necessary to advance these important initiatives.

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