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New tech firms in New York struggle

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Pennsylvania annually puts \$20 million in taxpayer dollars toward new technology businesses. The payoff, according to Ben Franklin Technology Partners, has been pretty good for the Keystone State, with more than 10,000 jobs created between 2002 and 2006.

So where is New York's equivalent? That is the question Rochester-based venture capital fund Excell Partners is asking in a new study about the state of funding for technology companies rising out of the high-tech research going on at New York's colleges and universities.

According to the study, California, Maryland, Pennsylvania and Texas all are having better success at landing venture capital funding to turn university R&D into businesses, in large part because those states all put tax dollars behind the economic development effort.

The problem is the lack of funding available to those new tech firms just as they are starting out — so-called "seed funding," said Judy Albers, chief operating officer of Excell and one of the study's authors.

"There's a lot going on in the universities in New York state," Albers said, "All of us across the region are struggling, trying to help university spin-outs with very little cash, very little resources."

The lack of seed funding is a problem for nascent tech companies everywhere, said Edward Reinfurt, executive director of the New York State Foundation for Science, Technology and Innovation.

"You talk to anyone in this field, they tell you after you get done with families and friends and your own credit cards, the next round of funding is the most difficult," he said.

The private market, in the form of venture capital firms and "angel" investors, typically focuses on later-stage companies, Albers said. And in the public sector, New York spends far less than Pennsylvania, Texas, California and Maryland on programs to support commercialization and startup companies, according to the study. Excell's study focused on those four states in comparison to New York.

"If we're not properly seeding our companies, they're not going to be there when the bigger VCs are ready to put their money in" and the money will flow instead to startups in California and Massachusetts, Albers said. Indeed, of the roughly \$30 billion spent each year on venture capital, 47 percent goes to small companies in California.

Massachusetts, particularly Boston, comes in second with 12 percent of the spending, according to the study. New York companies snag only 4 percent of the money.

For the University of Rochester, the result of the lack of seed funding is that UR-developed technology is often licensed by out-of-state firms or that companies started locally take a long time to get off the ground, said Peter Robinson, chief operating officer of the UR Medical Center and an Excell board member.

Taxpayers already are major investors in university research.

The federal government spends about \$3 billion annually on R&D efforts at New York's universities, hoping to create new technologies or life-saving medical treatments.

While New York has taken some steps to provide early-stage money, Reinfurt said, seed-stage money may not be the state's forte.

"It's a local investor's role ... not one best done by state government," he said. "It needs local partners. The due diligence and initial business assessment is best done by the local community."

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Additional Facts

What's at stake

The health of the regional and state economies. A study finds that New York lags other states in providing capital — both public and private — to help startup companies that use university-generated research.
