

Chapman Goes After Karen Mills, VC Industry

By **Connie Loizos** - 3 February 2009

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You have to say this about Lloyd Chapman: He doesn't sit on his hands. The president of the 100,000 member **American Small Business League** has been sending out a flurry of releases that condemn President Obama's selection of venture capitalist Karen Mills as the new head of the Small Business Administration. (She's still awaiting her Senate confirmation hearing.)

"On day one she needs to start solving the SBA's number one problem, which is the diversion of federal small business contracts to corporate giants," Chapman told the **Long Island Business News** a couple of days ago. "We're concerned Mills, a venture capitalist, will support policies that will divert even more small business contracts to companies owned by venture capitalists."

It's a new approach for Chapman, who until lately, has railed instead against the government's Small Business Innovation Research program, which is up for retooling in March, when authorization for the program in its current form ends. (It was actually up for reauthorization in September, but Congress couldn't pass legislation surrounding the program so it was given a six-month extension.)

For years, VCs have been pushing for a makeover of the program so more of their companies might receive SBIR grants, which can total more \$750,000 annually. It was back in 2002 that the SBIR stopped issuing the grants to startups whose venture backers own more than 49 percent of the company.

Chapman, who's adamantly opposed to that lobbying effort paying off, told me last fall that "VCs qualifying as small businesses is absurd. The legislation as it stands right now, a firm that is up to 98 percent owned by two or more VCs qualify as a small businesses [each firm can own up to 49 percent of a

company]. That's absurd; that's not a small business. If that passes, then Bill Gates and Warren Buffet can start a business and participate in small business programs. And I'm sure it's not the government's intention that billionaires use it."

Apparently, Chapman isn't satisfied with the recent coverage that his position has attracted so far, including in the Central Valley Business Post and the Huffington Post. Indeed, his Petaluma, Calif.-based organization fired off a yet another new press release today, one that takes aim at both venture capitalists, Mills, and President Obama's judgment. States the release, "President Obama's appointment of multi-millionaire venture capitalist and heir to the multi-billion dollar Tootsie Roll fortune, Karen Mills to head the Small Business Administration (SBA), is seen as an indication he will support federal legislation and policies that could kill millions of middle class jobs by diverting billions of dollars in federal small business contracts to some of the nation's wealthiest venture capitalists."

Unsurprisingly, the NVCA, which has grown accustomed to sparring with Chapman over for years, quickly issued its own release earlier today. "In recent weeks," it reads, "certain organizations have been falsely characterizing small venture-backed companies as shells for larger organizations. NVCA strongly agrees that large corporations should not have access to small business grants and supports language to restrict grants to only the smallest businesses."

The release goes on to quote NVCA President Mark Heesen, who says (and you can practically hear him sighing): "Let me be perfectly clear. A tiny company that receives venture-capital financing is not flush with cash nor is its success guaranteed. Venture capital financing is restricted to very specific areas of company growth — not basic research. SBIR grant money, if earned, would be channeled directly into early stage discovery projects which include everything from new cancer drugs to renewable energy sources, all which fuel that tiny company's pipeline. Venture capitalists do not fund basic research, so without government support, these meaningful projects have been postponed or abandoned."

President Obama's pick for SBA head has largely been cheered, in part because he chose Mills quickly — on December 22 — minimizing staff anxiety over who might take over the program.

The SBA was plagued by turnover during the Bush Administration. One-time SBA head Hector Barreto tendered his resignation after critics shone a light on inappropriate loans made after the 9/11 attacks on the U.S. Then last spring, Barreto's successor, Steve Preston, was abruptly transitioned out of the SBA to replace HUD Secretary Alphonso Jackson, who announced his resignation when it was learned that he was under criminal investigation stemming from corruption charges by the FBI.

Mills cofounded Solera Capital, a 10-year-old Manhattan-based late-stage venture firm that has raised one, \$250 million fund, which closed in 2002 and includes commitments from the Los Angeles County Employee Retirement Association, the Oregon Public Employees Retirement System, and the New York City Comptroller's Office.

According to Thomson Reuters' limited data on the firm, one of its most recent investments was made in Portland, Ore.-based Yolo Colorhouse, which sells custom paint and plaster finishing services. Solera and an undisclosed firm gave the company \$35 million in December 2007.

Mills, who is married and has three sons, drives weekly to Solera's offices from her family's home in Brunswick, Maine.

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