

Recommendations for Implementing DOD SBIR Provisions from the National Defense Authorization Act of 2012

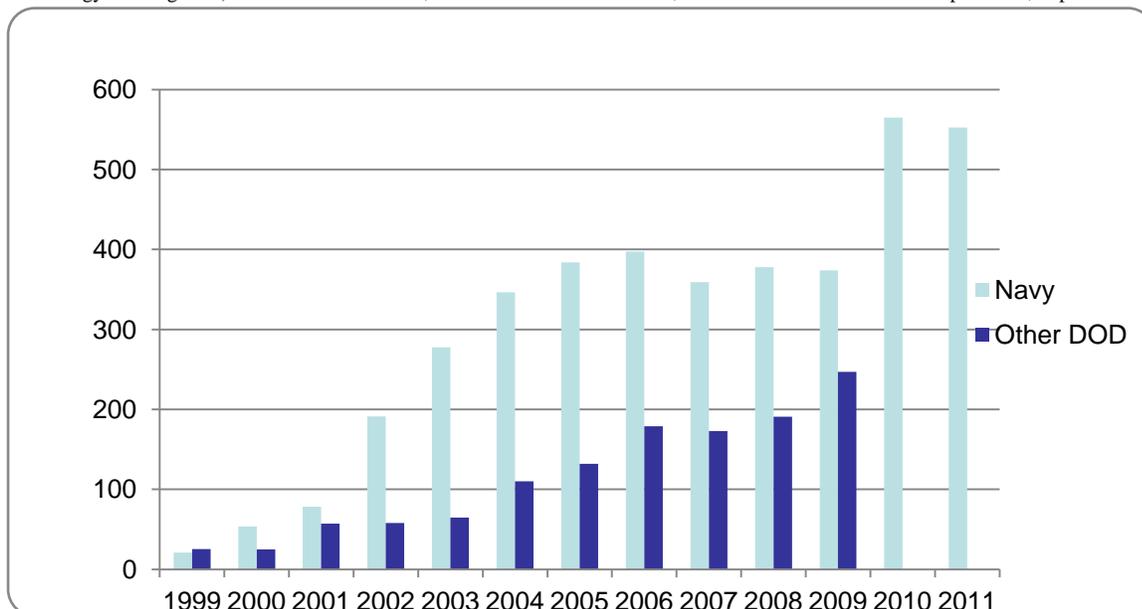
The National Defense Authorization Act of 2012 contains the SBIR/STTR reauthorization provisions [Appendix I] and includes major new language that indicates strong Congressional intent to improve the process of rapidly transitioning SBIR/STTR (hereafter SBIR) innovative technologies for insertion into DOD fielded systems and platforms. The law specifically states:

“Sec. 5108: To the **greatest extent practicable**, Federal agencies and Federal prime contractors **shall** issue Phase III awards relating to technology, including sole source awards, to the SBIR and STTR award recipients that developed the technology.” [Emphasis added.] [Phase III is further defined as, see Sec. 5125 – “for work that derives from, extends, or completes efforts made under prior funding agreements under the SBIR program.”]

This provision is the strongest statement to date that Congress is serious that agencies and prime contractors issue Phase III awards to SBIR producers of technology - a mandate, - no longer merely an issue of discretion. Congress had good reason for its action since the DOD SBIR Program has over \$21 billion in cumulative commercialization (i.e., investment in technology maturation) reported by over 7,500 projects since the inception of the Program. In recent years, OSD Office of Small Business Programs has offered various commercialization estimates ranging from 50% to 70%, but the more important insertion metric – which is unknown – may be much lower. This suggests that there is serious undercapitalization of the government’s investment in the technology successes of Phase II and that the government needs to take greater advantage of its SBIR investments. As a rough comparative indicator the direct SBIR investment over the 2000-2009 periods was \$9.6 billion.”¹ Regardless of transparency, one participant in Congressional hearings noted that “SBIR transition is horrible”²

In fact, government-issued Phase III contract investments have increased annually since 1999 (2007-2009 excepted), with the Navy alone breaching the \$500M ceiling for the past two years, and the DOD-wide figure climbing close to \$1B in 2011 absent specific “other DOD” totals. Industry figures are unknown but

¹ [Testimony of Ms. Linda Oliver, Acting Director, Office of Small Business Programs, Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) before the House ASC, Subcommittee on Terrorism, Unconventional Threats and Capabilities, September 29, 2010.]



² House Armed Services Committee Report 3-19-2012 Panel on Business Challenges in the Defense Industry, page 86.

may approximate just 10% of government Phase III investments.

Congress ultimately recognized there is more potential and benefit to the government if more SBIR innovations make it into fielded systems or programs of record. Congress recognized that more needed to be done to transition SBIR technology into Federal projects and both the Armed Services Committees and the Small Business Committees dramatically strengthened the SBIR Reauthorization Act to require improved transition of SBIR innovations.

Congress adopted an interesting approach to stimulating Phase III awards by authorizing important incentives, goaling and reporting requirements for DOD departments, DOD Program Managers and PEO's, and for DOD Prime Contractors. The new law builds on and expands Section 252 of the FY 2007 National Defense Authorization Act. PL 109-163. This has been a major goal of the Small Business Technology Council, SBTC,³ for years.⁴

These statutory provisions are provided in bold print and discussed here, followed by the recommendations of the Small Business Technology Council of the National Small Business Association (SBTC) to implement them. Concerning SBIR technology insertion goals, the law states:⁵

Sec. 5122: Commercialization Readiness Program at Department of Defense:

(5) INSERTION INCENTIVES.—For any contract with a value of not less than \$100,000,000 the Secretary of Defense is authorized to—

(A) establish goals for the transition of Phase III technologies in subcontracting plans; and

The Secretary currently provides goals for subcontracting with small business, HubZones and minority owned business. DOD and the Navy have recently strengthened and increased their small business goals. (See recent DOD efforts subsequent) This new provision authorizes the Secretary to establish subcontracting goals for transitioning SBIR innovations for contracts of over \$100 million. (Hereafter “major” primes or “major” contractors) This provision requires the DOD to establish specific subcontracting goals for SBIR transitions for each major contract. These provisions require that in all new contracts or significant modifications of existing contracts that the DOD provide a provision in all major solicitations require subcontracting plans that state clearly how the contractor would include SBIR technology in the project, what specific technology the company planned on using in the project and the dollar amount to be spent on SBIR innovations. The use of SBIR technology should be significant evaluation criteria for the proposals. The provision also provides for setting goals for program managers at DOD.

Recommendation: SBTC believes that the specific SBIR subcontracting goal should be 5% of major contract amounts.

(B) require a prime contractor on such a contract to report the number and dollar amount of contracts entered into by that prime contractor for Phase III SBIR or STTR projects.

Agencies are required in all future contracts or modification of existing contracts that each major prime contractor to report the number of contracts and dollar amounts that result from SBIR.

³ The Small Business Technology Council is the largest small business technology organization representing a diverse range of industries and is the technology council of the National Small Business Association, America's oldest small business organization.

⁴ Prior recommendations for improving the SBIR and Phase III programs at DoD by the SBTC can be found here: http://www.nsba.biz/docs/sbir_dod_phase_iii_recommendations.pdf; http://www.nsba.biz/docs/dod_sbir_recommendations.pdf

⁵ The provisions of the law are bolded. SBTC's comments are in italics.

Recommendation: DOD should develop a matrix for evaluating prime contractors transitioning SBIR technology. DOD should also require qualified major prime contractors to develop amended subcontracting plans to indicate how they will meet the goals for transitioning SBIR innovations.

(6) GOAL FOR SBIR AND STTR TECHNOLOGY INSERTION.—The Secretary of Defense shall—

- (A) set a goal to increase the number of Phase II SBIR contracts and the number of Phase II STTR contracts awarded by the Secretary that lead to technology transition into programs of record or fielded systems;**

This provision requires that the Secretary set goals for DOD and its Program Managers and senior acquisition personnel for transitioning SBIR technology.

Recommendation: DOD should set a goal of 5% of all non-SBIR RDT&E funding be spent on SBIR innovations for Phase III follow-ons. This would include funding by primes as well as direct funding by DOD, and its University Affiliated Research Center and FFRDCs. If a component of the DOD does not meet its goal then the funds should be transferred to components that exceed their goal.

II. Concerning technology transition reporting, the law states:

- (C) [The Secretary of Defense shall—] submit to the Administrator for inclusion in the annual report under subsection (b)(7)—**
- (i) the number and percentage of Phase II SBIR and STTR contracts awarded by the Secretary that led to technology transition into programs of record or fielded systems;**
 - (ii) information on the status of each project that received funding through the Commercialization Readiness Program and efforts to transition those projects into programs of record or fielded systems; and**
 - (iii) a description of each incentive that has been used by the Secretary under subparagraph (B) and the effectiveness of that incentive with respect to meeting the goal under subparagraph (A)**

These provisions are designed to make sure that the DOD is evaluating, monitoring and improving the CPR and various incentives that DOD is using to improve utilization of SBIR technology. These provisions require that primes, SBIR companies and agency personnel report each SBIR project that has technology transitioned.

This provision also requires DOD to report each specific incentive used and its effectiveness by DOD and its component organizations to meet the goal for transitioning SBIR technology into programs of record.

Recommendation: The Secretary and the agencies should develop a matrix to evaluate each Commercialization Readiness Project (CRP), and report each SBIR technology that is transitioned.

III. Regarding incentives the law also requires the Secretary of Defense to:

- (B) use incentives in effect on the date of enactment of the SBIR/STTR Reauthorization Act of 2011, or create new incentives, to encourage agency program managers and prime contractors to meet the goal**

We recognize the importance of these statutory incentives. Only if proper incentives are provided to encourage senior acquisition personnel and prime contractors, will the Congressional mandated goal of transitioning SBIR innovations be met. The law requires that DOD create or designate incentives and

report on how successful the particular incentive is working to achieve the goal of SBIR technology insertion. As far back as 2005, the DOD Manager's Guide to Technology Transition presented a comprehensive list and description of incentives to entities and individuals including cash and non-cash incentives and cost-based incentives.

Recommendation: We believe that the goal of delivering to the war fighter new technology faster and more efficiently is critical. These incentives for transitioning SBIR innovations should be bold and significant.

These provisions require that for all new major solicitations, that there be a provision requiring that all proposals include a requirement that the company submitting the proposal submit a subcontracting plan that states clearly how the contractor would include SBIR technology in the project and what specific technology the company planned on using in the project.

Recommendation: DOD should set goals for each new prime contract. We believe the goal should be 5% of the contract value. The use of SBIR innovations should be significant evaluation criteria for all proposals and contracts.

In order for the law to be successful it requires that the Program Managers and PEOs implement the new provisions. The law specifically provides for incentives to encourage the program managers to meet the goals.

Recommendation: These incentives should be at least \$5,000 for each Program Manager or PEO that meets the Secretary's goal for SBIR technology insertion (these funds could come from the 3% administrative fees provided in the law.) In addition, incentives should include step-grade or band promotions available to persons of SBIR insertion achievement other than PMs or acquisition executives. The use of SBIR innovations by the program managers and senior acquisition personnel should also be evaluated on their use of SBIR innovations in their programs.

The Assistant Secretary for the Navy (Research, Development and Acquisition) issued a memorandum dated July 19, 2011 that provided that: "Accountability: Senior leadership at the Flag, General Officer and SES level that influence acquisitions will have performance standards established to demonstrate support for Department of the Navy small business mission"

Recommendations: 1) This memorandum should be amended to include specifically SBIR technology transition. 2) Other components of the DOD should issue similar directives to its Senior Acquisition personnel. 3) There should also be a provision for the PM to report on cost savings that result from the use of SBIR technology. 4) Incentives should be provided for PM who use SBIR technology that results in cost saving. 5) DOD should set goals for each PM and PM should be evaluated on the amount and number of SBIR innovations that are inserted in the PM projects.

IV. The law also requires commercialization reporting at **SEC. 5138:**

(kk) PHASE III REPORTING.—The annual SBIR or STTR report to Congress by the Administration under subsection (b)(7) shall include, for each Phase III award—

(1) the name of the agency or component of the agency or the non-Federal source of capital making the Phase III award;

- (2) the name of the small business concern or individual receiving the Phase III award; and
- (3) the dollar amount of the Phase III award.

These provisions require DOD to monitor which CRP project, the number of Phase III awards and which incentives are effective in transitioning SBIR technology. This requires that each agency, SBIR company and prime contractor report on all Phase III activities.

Recommendation: SBTC believes that DOD and each contractor should report when each new phase III subcontract is issued.

These statutory provisions are the strongest Congressional language requiring the DOD and its major Prime Contractors to take significant and meaningful steps to transition SBIR technology into fielded systems and programs of records. This new law builds on prior efforts of Congress and DOD to transition technology into fielded systems.

HISTORY

The strong language that emerged in the 2012 SBIR Reauthorization Act evolved, it can be argued, from various prior efforts by Congress and Federal agencies to work with and develop a viable SBIR program. While there have been some false starts, there has always been a forward thrust. A review of that history of congressional and agency initiatives is valuable background for understanding the significance of this most recent congressional enactment.

Past Congressional efforts on DOD technology transition

Since 1996, there has been a continuous pattern of hearings, proposals and programs before Congress concerning transitioning technology at DOD, especially SBIR technology. DOD has launched a number of Congressionally-sanctioned technology transition programs not focusing on SBIR such as Defense Acquisition Challenge, Technology Transition Initiative, Quick Reaction Fund and Rapid Technology Transition. DOD has almost 50 external funding programs with 20 of those programs designed to rapidly transition technology. Unfortunately, none of these programs have been as successful as Congress or DOD would have been hoped. None of these 20 programs have focused on SBIR technology.

Congress has also enacted a number of SBIR specific programs: Over the past decade Congress recognized the value of rapid transition of SBIR innovations to the war fighters and provided specific SBIR-related programs supporting such efforts. These include:

- The Commercialization Pilot Program (Section 252 of the National Defense Authorization Act of 2006, PL 109-163), which was a successful SBIR-related pilot program and resulted in the language in the new law requiring commercialization programs at other agencies [Sec. 5123].
- PL 111-84, the FY2010 National Defense Authorization Act, extended the DOD SBIR Program in the absence of Congressional reauthorization of SBIR for all agencies.
- Public Law 111-383, The “Ike Skelton National Defense Authorization Act for Fiscal Year 2011” provided the Defense Research and Development Rapid Innovation Program [Sec. 1073] “to accelerate the fielding of technologies developed pursuant to Phase II SBIR projects ... to rapidly insert such products directly in support of primarily major defense acquisition programs.”
- [House Report 112-331 House Defense Appropriations Subcommittee creates 200 million to transition technology to be spent on SBIR and other technology transition. http://thomas.loc.gov/cgi-bin/cpquery/?&dbname=cp112&sid=cp1126p9Uf&refer=&r_n=hr331.112&item=&&&sel=TOC_46776&]
- In addition to these laws, the House Armed Services Committee has created a special panel on Challenges to Doing Business with the Department of Defense. This panel has held a number of

hearings around the country. This Panel issued its report on March 19, 2012. Much of this report deals with SBIR. The Panels hearings began with testimony on the importance of the SBIR Program to DOD. In a hearing before this Panel on September 29, 2010 DOD reported its SBIR commercialization rate:

“the DOD SBIR Program has over \$21 billion in cumulative commercialization reported by over 7,500 projects since the inception of the Program. As a rough comparative indicator the direct SBIR investment over the 2000-2009 period was \$9.6 billion.”⁶

Congress recognized that not enough had been done to transition SBIR technology. The Armed Services Committees and the Small Business Committees dramatically strengthened the SBIR Reauthorization ACT to require better transitioning of SBIR technology.

THE PROVISIONS IN THE 2012 DEFENSE AUTHORIZATION ACT ON SBIR ARE THE STRONGEST PROVISIONS PASSED BY CONGRESS ON TECHNOLOGY TRANSITION AND SHOULD BE IMPLEMENTED BY DOD QUICKLY AND EFFECTIVELY.

Congress has taken many steps in the past to strengthen Federal agency utilization of innovations emerging from the SBIR program. The government’s investment in R&D needs to be transformed into products of value that advance agency objectives. With the enactment of the 2012 Defense Authorization Act on SBIR Congress has made its intentions very clear that agencies need to issue more Phase III SBIR awards. It has proposed several innovative steps it wants agencies to adopt, steps which agencies cannot ignore.

Past DOD Efforts

Top DOD leadership and many agency leaders have understood the value of the SBIR programs in providing advanced technology to the war fighters faster than many traditional acquisition strategies. Yet, more can be done to improve the process.

Examples of past DOD top leadership initiatives towards improved SBIR transition and insertion include:

- Jacques Gansler, USD (A&T) wrote in his 24 February 1998 memo, *SBIR Program*, “I am requesting that you ... Establish quantifiable, performance-based metrics of SBIR program outcomes in phase III ...”
- Dr. James Finley, DUSD-Acq. & Tech., in late 2006 declared his intention to lead improvement of DOD technology transition overall. “My duties,” he said, “are to support the Secretary ... with matters relating to acquisition and the integration of technology. I have three major goals: One to reduce cycle time; two, to increase competitiveness; and three to broaden communications.”⁴ [Dr. Finley received the Tibbett’s award in 2007 for his leadership.]
- DOD component SBIR programs – led by the Navy – have pushed down the technology transition path, securing over \$21 billion in cumulative commercialization reported by over 7,500 projects since the inception of the Program. As a rough comparative indicator the direct SBIR investment over the 2000-2009 periods was \$9.6 billion.”⁷ In 2008 the Navy issued a report on their successes, entitled, *A Report on the Navy SBIR Program: Best Practices, Roadblocks and Recommendations for Technology Transition*,⁵ in which they reported:
“As a whole, the Navy SBIR program has the highest transition success across the DOD and has that honor because of the dedication of the people that are involved. Nevertheless, we must continually study our processes and techniques in our desire to increase Phase III transitions and value to the

⁶ [Testimony of Ms. Linda Oliver, Acting Director, Office of Small Business Programs, Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) before the House ASC, Subcommittee on Terrorism, Unconventional Threats and Capabilities, September 29, 2010.]

- DOD has issued guidelines to agency program managers to improve the process of incorporation of SBIR innovations into fielded programs such as:
 - *Small Business Innovation Research, Small Business Technology Transfer, Program Manager Checklist, v02-04/29/11*
 - *DOD Program Manager Tools, Using SBIR for Risk mitigation*; which states:

“SBIR can be employed during the Technology Development Phase for technology risk reduction, competitive prototyping and the identification of the appropriate set of technologies to be integrated into a full system. One way to derive maximum value from SBIR is to include specific award fee clauses in contract language to target and reward incorporation of SBIR technologies by prime contractors. This following is an example of appropriate language to encourage use of SBIR technology:

“Two percent of the total award fee pool shall be dedicated to an evaluation of success in applying technology from SBIR projects.”DOD component SBIR programs – led by the Navy – have pushed down the technology transition path, securing \$2.8B in Phase III contracts since 2005².”

Recent DOD Efforts

Within the past year DOD has issued a number of Memorandums and efforts supporting increased use of small business.

1. July 19, 2011 Assistant Secretary of Navy, Sean J. Stackley
Subject: Increased Use of Small Business Concerns includes specific SBIR provisions
[\[https://acquisition.navy.mil/rda/content/view/full/8550\]](https://acquisition.navy.mil/rda/content/view/full/8550)
2. August 5, 2011 Under Secretary of the Navy, Robert O. Work Subject: Maximizing
Department of the Navy (DON) Opportunities for Small Business
[\[https://acquisition.navy.mil/rda/content/view/full/8545\]](https://acquisition.navy.mil/rda/content/view/full/8545)
3. February 10, 2012 Deputy Secretary of Defense, Ashton B. Carter, Memorandum Subject:
Advancing Small Business Contracting Goals in FY 2012
[\[http://contractingacademy.gatech.edu/wp-content/uploads/2012/02/Advancing-Small-Business-Contracting-Goals-in-FY12-Ashton-Carter-02.10.2012.pdf\]](http://contractingacademy.gatech.edu/wp-content/uploads/2012/02/Advancing-Small-Business-Contracting-Goals-in-FY12-Ashton-Carter-02.10.2012.pdf)
4. March 13, 2012 USD (AT&L) Under Secretary of Defense for Acquisition, Technology and
Logistics, Frank Kendall, Subject: 10 point increase in prime contract and dollars going to
small business
5. April 10, 2012 Assistant Secretary of Navy (Acquisition, Technology & Logistics, Principal
Civilian Deputy, and James E. Thomsen Subject: Improving Small Business and Competition
Opportunities in Services Acquisitions includes specific SBIR provisions.
[\[http://www.nsba.biz/docs/small_business_memo_4-10-12.pdf\]](http://www.nsba.biz/docs/small_business_memo_4-10-12.pdf)
6. The Air Force recently held a conference with its major primes that focused on SBIR transition
best practices.

The thrust of these efforts is to put Small Business First. The thrust of the new SBIR provisions in the law is to make small business and SBIR technology a critical component of DOD decision making. These new Small Business memorandums provide guidance and direction impacting all small business procurement. These memos will certainly help many small businesses. The SBIR provisions in the 2012 National Defense Authorization Act require new initiatives on transitioning SBIR technology that should build on these recent efforts.

SBTC Recommendations

With the approval of the Congressional Senate and House Armed Services Committees, Small Business and Entrepreneurship Committees and House Science Committee the 2012 National Defense Authorization Act provides important incentives, goaling and reporting requirements for DOD departments, DOD Program Managers and PEO's, and for DOD Prime Contractors. SBTC believes that DOD should take this opportunity to dramatically improve technology transition and technology insertion. Specifically SBTC recommends:

1. SBTC believes that the Secretary should set a goal of 5% of all non-SBIR RDT&E funding for SBIR innovations for Phase III follow-ons. These goals should flow down to the PEO and PM levels. This would include funding by primes as well as direct funding by DOD, and its University Affiliated Research Center and FFRDCs. If a component of the DOD does not meet its goal then the funds should be transferred to components that exceed their goal.
2. SBTC believes that DOD should establish significant incentives to encourage Program Managers and PEO to meet the SBIR transitioning goals and to reward senior acquisition personnel for transiting SBIR innovations into programs of record. These incentives should be at least \$5,000 for each Program Manager or PEO that meets the Secretary's goal for SBIR/STTR technology insertion.
3. Cash and non-cash incentives (including promotions and other professional recognitions of merit) for utilizing SBIR innovations should be created for DOD senior leadership personnel at Flag, General Officer and SES level that influence acquisitions (See Navy July 19, 2011 memorandum), and separately for lower-level acquisition personnel.
4. DOD senior leadership personnel at Flag, General Officer and SES level that influence acquisitions should include meeting SBIR transition goals in their performance evaluations. (See Navy July 19, 2011 memorandum that provides "**Accountability: Senior leadership at the Flag, General Officer and SES level that influence acquisitions will have performance standards established to demonstrate support for Department of the Navy small business mission**"). **The Navy memorandum should be amended to include SBIR transition goals and other components should issue similar memorandums.**
5. The law requires the DOD establish specific subcontracting goals for SBIR transitions for each major contract. SBTC believes that the Secretary should set the goal of at least 5% of all contracts in excess of 100 million dollars should be used to transition SBIR innovations.
6. There should be a specific requirement in all major solicitations that companies submitting a proposal include a specific subcontracting plan that state clearly how the contractor would include SBIR technology in the project, what specific technology the company planned on using in the project and the dollar amount to be spent on SBIR innovations.
7. Solicitations should include contract award criteria that incorporates the use of SBIR innovations in major DOD prime contracts. "Subcontracting: Acquisition strategies for all ACAT I and ACAT II programs must address Small Business and SBIR/STTR engagement through the next milestone decision or during program sustainment, as applicable. The Technology Insertion Plan should identify specific SBIR technologies to be transitioned to meet program capability gaps and a schedule to deploy these capabilities"
8. A small business subcontracting plan, specifying SBIR inclusion not less than 20% of the overall subcontracting level of effort, should be a mandatory evaluation element for DOD program proposals. (see related recommendation #12, below)

9. All major contracts should contain provisions requiring the contractor to adhere to and implement their SBIR subcontracting plans and require that the contractor meets its SBIR subcontracting goal.
10. Program managers and contracting officers should include a Small Business Innovation Incentive Fee for major contractors who meet subcontracting levels where incentive fees are used. The *Manager's Guide to Technology Transition* already provides for profit incentives are another form of cost-based incentive. The DFARS now include a provision to increase the negotiated fee according to the contractor's use of innovative technology. This incentive is based on a Congressional desire to encourage innovation and is completely consistent with DOD's objectives."⁸ The Navy also provides incentive fees for SBIR innovations. "*Program manager and contracting officers should include a Small Business SBIR transitioning Incentive Fee for meeting specific small business and SBIR subcontracting levels in contracts where incentives are used.*"⁹ Share-in savings (SIS) provisions are cost-based incentives, now referred to by DOD as 'efficiency savings.' An SIS contract encourages contractors to use their ingenuity and innovation to get the work done quickly and efficiently to share in the savings attributed to their planning and execution. Savings can be shared.
11. Where SBIR subcontracting goals are set by the DOD program office in the RFP as an explicit percentage of the total contracted effort, penalties such as fee reduction (or incentives such as award fee increases) should be employed to encourage prime contractor fulfillment of those goals.
SBIR transition Incentives have worked "*Two percent of the total award fee pool shall be dedicated to an evaluation of success in applying technology from SBIR projects.*"*DOD component SBIR programs – led by the Navy – have pushed down the technology transition path, securing \$2.8B in Phase III contracts since 2005.*¹⁰
12. Another incentive involves IR&D. Some adjustment to the companies IR&D could make for meeting the SBIR innovation goals. For every prime RDT&E contract in excess of \$100M, the prime contractor shall subcontract not less than five per cent (5%) of the contract value to small businesses that have completed relevant Phase II SBIR or STTR programs and can meet or exceed the technical requirements of the prime contract. The determination of the ability of a technology to meet these requirements shall be made jointly by the Agency SBIR innovations transition manager and prime contract project manager. For example for every one per cent (1%) of the prime contract subcontracted to small businesses to meet or exceed this goal, the prime contractor shall be entitled to a credit of ten per cent (10%) of its audited Independent Research and Development (IR&D) expenses by the Department of Defense. For example, meeting the goal of 5% subcontracted to SBIR companies will entitle the prime contractor to recover 50% of its IR&D expenses up to the amount allowable.
13. Reporting is critical to the success of the SBIR transitioning efforts. SBTC believes that SBIR companies should report each Phase III follow on contract within 90 days and that prime contractors should also report all Phase III contracts within 90 days. Further, since the SBIR reauthorization statute stipulates that industry shall report its contributions to SBIR commercialization but does not specify a mechanism or process, OSD Office of Small Business

⁸ *Manager's Guide to Technology Transition in an Evolutionary Acquisition Environment* – Version 1.0; Office of the Under Secretary of Defense (Acquisition, Technology and Logistics); January 31, 2003; pp. 2-27 – 2-28.

⁹ Navy July 19, 2011 Memorandum Assistant Secretary, Sean Stackley, Subject: Increased Use of Small Business Concerns

¹⁰ A STRATEGY FOR EXPANDING SBIR/STTR OPPORTUNITY in ACAT PROGRAMS: CONTRACTING INCENTIVES and PROGRAM REQUIREMENTS; 5 March 2011; Navy SBIR Program Office

Programs should work with SBA to develop a mechanism or process for inclusion in the SBIR and STTR Policy Directives.

Incentivization Case Study: NAVSEA PEO Submarine

A practical and successful approach to cash incentives used for enhancement of SBIR Phase III activity in DOD programs has been in place since 1988 in Program Executive Office – Submarine, a Naval Sea Systems Command (NAVSEA) office. Under the leadership of Richard McNamara, Executive Director of PEO SUB, over \$1B in Phase III work in key submarine programs has been generated since 1988, from an SBIR investment of ~\$150M. PEO SUB's Phase III total is 82% of total NAVSEA Phase III awards between 1988–2004. McNamara, in his June, 2005 address at The National Academies of Science symposium on SBIR Phase III issues, credited PEO SUB's open competition and incentives policies for helping achieve this notable success.¹¹

PEO Submarine is an example of where the proper use of incentives resulted in the transitioning of SBIR technology with significant cost and delivery time savings to the government. McNamara estimated that the use of SBIR innovations reduces the cost to the Navy by 25% and the delivery time was also reduced by 25%.

¹¹ For an independent look at PEO SUB's unique technology transition strategy, see: Johnson, William; "Delivering Combat Power to the Fleet, Now! A Case Study in Rapid Acquisition"; *Naval Engineers Journal*; Fall, 2004



APPENDIX I

Summary of Information Pertinent To Defense Prime Contractors And To SBIR/STTR Awardees By SBTC From The

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2012, Public Law No: 112-81

SECTION 1. SHORT TITLE.

This Act may be cited as the “National Defense Authorization Act for Fiscal Year 2012”.

SEC. 2. ORGANIZATION OF ACT INTO DIVISIONS; TABLE OF CONTENTS.

(a) DIVISIONS.—This Act is organized into five divisions as follows:

(1) Division A—Department of Defense Authorizations.

(2) Division B—Military Construction Authorizations.

(3) Division C—Department of Energy National Security Authorizations and Other Authorizations.

(4) Division D—Funding Tables.

(5) Division E—SBIR and STTR Reauthorization

Selected Sections of:

DIVISION E—SBIR AND STTR REAUTHORIZATION ACT OF 2011

SEC. 5108. SBIR AND STTR SPECIAL ACQUISITION PREFERENCE.

Section 9(r) of the Small Business Act (15 U.S.C. 6 638(r)) is amended by adding at the end the following:

(4) PHASE III AWARDS.—To the greatest extent practicable, Federal agencies and Federal prime contractors shall issue Phase III awards relating to technology, including sole source awards, to the SBIR and STTR award recipients that developed the technology.

SEC. 5122. COMMERCIALIZATION READINESS PROGRAM AT DEPARTMENT OF DEFENSE. [For both SBIR and STTR Programs:]

(5) INSERTION INCENTIVES.—For any contract with a value of not less than \$100,000,000, the Secretary of Defense is authorized to—

(A) establish goals for the transition of Phase III technologies in subcontracting plans; and

(B) require a prime contractor on such a contract to report the number and dollar amount of contracts entered into by that prime contractor for Phase III SBIR or STTR projects.

(6) GOAL FOR SBIR AND STTR TECHNOLOGY INSERTION.—The Secretary of Defense shall—

(A) set a goal to increase the number of Phase II SBIR contracts and the number of Phase II STTR contracts awarded by the Secretary that lead to technology transition into programs of record or fielded systems;

(B) use incentives in effect on the date of enactment of the SBIR/STTR Reauthorization Act of 2011, or create new incentives, to encourage agency program managers and prime contractors to meet the goal under subparagraph (A); and

(C) submit to the Administrator for inclusion in the annual report under subsection (b)(7)—

(i) the number and percentage of Phase II SBIR and STTR contracts awarded by the Secretary that led to technology transition into programs of record or fielded systems;

(ii) information on the status of each project that received funding through the Commercialization Readiness Program and efforts to transition those projects into programs of record or fielded systems; and

(iii) a description of each incentive that has been used by the Secretary under subparagraph (B) and the effectiveness of that incentive with respect to meeting the goal under subparagraph (A).

SEC. 5124. INTERAGENCY POLICY COMMITTEE.

(a) ESTABLISHMENT.—The Director of the Office of Science and Technology Policy shall establish an Inter-agency SBIR/STTR Policy Committee.

(b) MEMBERSHIP.—The Interagency SBIR/STTR Policy Committee shall include representatives from Federal agencies with an SBIR or an STTR program and the Small Business Administration.

SEC. 5138. TECHNOLOGY INSERTION REPORTING REQUIREMENTS.

Section 9 of the Small Business Act (15 U.S.C. 638), as amended by this title, is further amended by adding at the end the following:

(kk) PHASE III REPORTING.—The annual SBIR or STTR report to Congress by the Administration under subsection (b)(7) shall include, for each Phase III award—

(1) the name of the agency or component of the agency or the non-Federal source of capital making the Phase III award;

(2) the name of the small business concern or individual receiving the Phase III award; and

(3) the dollar amount of the Phase III award.