

DEFENSE INNOVATION REFORM

Armed Services Republicans

Background:

DOD's efforts to access new sources of innovation are critical to its continued military superiority. Establishing pathways for small entrepreneurial companies to innovate and commercialize their innovations in DOD markets is essential to balancing DOD's innovation ecosystem. One of the flagship programs to accomplish this is the Small Business Innovation Research (SBIR) Program. SBIR is an important point of entry for small business innovators in the national security and defense space. Rep. Thornberry believes that these innovators are key to maintaining our military's competitive edge, as long as we can reduce barriers to entry and get products into the hands of the warfighter quickly. Established in 1983, the SBIR program offers research grants to small businesses to speed the development of their products. The SBIR program also gives successful small businesses a head start in the DOD acquisition system by creating opportunities for follow-on funding and meeting competitive requirements.

The Problem:

In 2003 the courts ruled that companies with over 50% venture capital ownership are ineligible for SBIR grants. In 2011 Congress recognized that this ruling was problematic and created a waiver for small businesses that are majority owned by multiple domestic venture investors. The waiver requires congressional notification and SBA approval and has never been used by DOD in seven years. Instead, DOD is turning away innovative small businesses with the most promising military and commercial technologies.

Market forces support the best ideas. Rep. Thornberry is concerned that the most capable small business and best innovators are being barred from the SBIR program precisely because their technologies are attracting private sector support and domestic investment. As one observer put it "We've eliminated companies with the smartest \$80 billion of funding and instead we'll work with all of the other companies."

The Solution:

Rep. Thornberry's legislation will create a pilot program with a modified SBIR waiver DOD can actually use. His bill will also ensure that other pathways exist to scale technologies across DOD through mechanisms like the Rapid Innovation Fund; while ensuring that those mechanisms are funded at levels that actually allow small businesses to break into major defense acquisition programs. His bill will also increase DOD's level of engagement with commercial technology companies, create opportunities for new technologies to grow out of Universities and DOD laboratories, and introduce small businesses to cybersecurity best practices early in their journey.

Case Study: [Capella Space](#)

Capella Space is an innovative startup with about 50 employees developing satellite technology that can see through clouds. The company was born out of a DOD program – *Hacking 4 Defense*- designed to inspire innovators in the tech community to apply their skills to national security.

Capella Space's work was so promising that major venture capitalists chose to invest in them. However, when Capella Space applied for a SBIR grant, the very confidence the marketplace was showing in their work was also the reason they were excluded from the program.