



March 04, 2025

The Honorable Joni Ernst
Chairwoman
Senate Committee on Small
Business and Entrepreneurship
Washington, DC 20510

The Honorable Edward Markey
Ranking Member
Senate Committee on Small
Business and Entrepreneurship
Washington, DC 20510

Dear Chairwoman Ernst and Ranking Member Markey:

The Software in Defense Coalition represents a diverse and innovative base of software technology startups and small businesses, industry thought leaders, and investors committed to ensuring the competitive advantage of the United States. Start-up companies provide cutting edge, mission-focused technologies to support our warfighters as our country faces an increasingly dangerous geopolitical landscape where adversaries are building their military power to levels not seen since World War II.

We are writing to urge the reauthorization of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs with Chairwoman Ernst's critical reforms to enhance their effectiveness in accelerating the transition of battle-ready technologies. We strongly support the SBIR and STTR programs. Since its inception, these programs have demonstrated significant outcomes in supporting innovative small businesses that contribute to the Department of Defense's (DoD) national security mission. For new emerging technology start-ups, the SBIR/STTR programs have been a key source to find non-dilutive capital to support national security missions. There are significant gaps, however, that have impeded the programs' effectiveness in transitioning technology to Phase III contracts for warfighter advantage.

Reforms are necessary to ensure that these programs fulfill their intended purpose efficiently and effectively. Over the past decade, the DoD has concentrated a substantial portion of SBIR Phase I/II investment dollars into a small number of companies. According to the 2024 Defense Innovation Board's study, "Terraforming the Valley of Death" and a 2023 study cited by the Naval Postgraduate School's Acquisition

Research Symposium, the top 5% of companies receiving the most DoD Phase I/II awards collectively secured 49% of all Phase I/II funding under the Department's SBIR program. Furthermore, a 2024 Government Accountability Office (GAO) report highlighted that just 22 firms—representing less than 1% of awardees—received 10% of all SBIR contracts, totaling \$3.2 billion.

The Senate's legislation includes some key updates including:

- **Firm Fixed Price Structure for Startups** – The vast majority of our member companies use firm fixed price to participate in the defense industry, one that has seen a 40% decline in small vendor engagement over the past decade. The legislation includes a pricing structure adjusted to allow startups to compete using a firm fixed price model, ensuring a level playing field and mitigating financial barriers that prevent new entrants from successfully participating in the SBIR/STTR programs.
- **Enhances Competition** – Increasing competition within the SBIR program is crucial. We support shorter, streamlined applications focused on commercialization potential for considered technologies. This would enable a greater number of small businesses to enter the program and demonstrate their innovations without significant administrative burdens.
- **Expanding Direct to Phase II Authority** – All agencies should have the authority to issue Direct to Phase II awards, which would allow companies with demonstrated feasibility to bypass Phase I and accelerate their development process. These reforms would eliminate unnecessary delays and improve the transition of innovative technologies to practical deployment.
- **Larger Phase II Strategic Breakthrough Funding Awards of up to \$30 million** – With the higher funding thresholds and a focus on commercialization, these awards will help direct funds to the most viable and impactful technologies at the level needed to help move from innovation to scaled production.

SBIR and STTR programs are an essential part of enabling innovative high-tech companies to advance national security technologies. We strongly urge adoption of these crucial reforms to foster a more competitive and innovative ecosystem in the federal enterprise, protected from adversarial influence. These changes will ensure SBIR and STTR programs continue to drive innovation for the benefit of our nation's defense and technological leadership.



Sincerely,

The Software in Defense Coalition