



RESEARCH
AND ENGINEERING

UNDER SECRETARY OF DEFENSE

3030 DEFENSE PENTAGON
WASHINGTON, DC 20301-3030

The Honorable Joni Ernst
Chair
Committee on Small Business and Entrepreneurship
United States Senate
Washington, D.C. 20510

Dear Madam Chair:

In response to your letter dated May 16, 2025, urging the Department of Defense (DoD) to investigate six companies that received Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) awards identified in your May 2025 report, "Critical American Technology Vulnerable to China," the Department performed an extensive investigation of the six companies identified. This investigation included an independent due diligence review by the Office of the Under Secretary of Defense for Research and Engineering (OUSD(R&E)) of a random sampling of awards to these six companies during Fiscal Years (FYs) 2023-2024 and a risk assessment of each company's business practices and foreign affiliations from a foreign country of concern (FCOC). The OUSD(R&E) referred your concerns to the DoD Office of Inspector General, which declined to investigate but shared the referral with the Office of the Under Secretary of Defense for Acquisition and Sustainment, Global Investment and Economic Security (GIES) Office. The GIES Office identified potential foreign ownership, control, or influence (FOCI) concerns relating to some of these companies, which do not necessarily stem from a FCOC.

Overall, the OUSD(R&E) conducted a review of submitted proposals, foreign disclosure information, existing due diligence review results, and award decisions from all DoD Components participating in the Defense SBIR/STTR programs for the six identified companies to ensure compliance with the Defense SBIR and STTR Due Diligence Program Implementation Policy. Based on this review, the OUSD(R&E) determined five of the six companies identified in your report did not have indicators to warrant a risk above "low" for potential FCOC security risks with regard to their company leadership and business practices, based on the enclosed Defense SBIR and STTR Due Diligence Program Common Risk Matrix. One company was identified as having a potential FCOC security risk, pursuant to 15 U.S.C. §§ 638(g)(15) (SBIR) and (o)(19) (STTR), with varying risk levels assessed for contracts to this company across numerous awarding DoD Components.

Comparatively, the GIES Office's investigation, which reviews FOCI risk focusing on foreign investments and global economics, identified the potential security risk for the same company the OUSD(R&E) identified. The GIES Office also identified potential FOCI concerns with two additional companies identified in your letter based on the information available to them. The GIES Office did not identify any potential FOCI risk with the other three companies. Therefore, while the OUSD(R&E) discovered FCOC security risk with only one of the six

companies identified in your letter, the GIES Office was able to uncover potential FOCI risks with two additional companies, totaling three companies with potential security risk.

After comparing due diligence findings and award decisions for the six identified companies in FYs 2023 - 2024, my office validated that the Department complied with all applicable statute and policy in its implementation and execution of due diligence. Furthermore, each SBIR and STTR proposal the Department receives is subjected to a due diligence review, which includes a review of not only the company leadership and business practices of the submitting company, but also all covered individuals pursuant to 15 U.S.C. § 638(e)(15). By comparing a single company's due diligence reviews for different proposals, the OUSD(R&E) can identify multiple instances where reviews may receive varying results across different proposals. Additionally, the company risk levels assessed during this investigation can differ from a given proposal's risk level assessed since the initial due diligence review of a single proposal is a snapshot in time, and not inclusive of any risks identified more recently. Current DoD policy requires each Defense SBIR/STTR program office to perform due diligence reviews per their implementation of the Defense SBIR and STTR Due Diligence Program Common Risk Matrix and determine risk levels based on their specific mission and program needs. Therefore, output and risks associated with any proposing company may vary per proposal.

The Department understands any variance in due diligence results or award decisions across the DoD for a single small business concern can be confusing to the defense industrial base. To address these variances, the Department agrees that standardizing the definition of foreign risk would mitigate the discrepancies identified by this investigation. The Department is committed to working with your office on this important issue should Congress choose to address it through legislation. The Department will also review the Defense SBIR and STTR Due Diligence Program Implementation Policy to determine what actions could be taken in order to prevent these discrepancies and ensure consistency across the Department. Your interest in the SBIR/STTR programs is appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'Emil Michael', with a stylized, cursive script.

Emil Michael

Enclosure:
As stated