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Exhibit R-2, RDT&E Budget Item Justification							Date: February 2005		
Appropriation/Budget Activity RDT&E/Defense Wide BA6				R-1 Item Nomenclature: Small Business Innovation Research (SBIR) Administration, PE 0605790D8Z					
Cost (\$ in millions)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
Total PE Cost	1.484	3.440	1.983	2.041	2.194	2.195	2.240	2.291	

A. Mission Description and Budget Item Justification:

(U) The Small Business Innovation Research (SBIR) Program and the Small Business Technology Transfer (STTR) Program fund approximately \$1.1 billion annually in mission oriented research and development projects at small technology companies. The purpose of the program is to stimulate the development of new technologies to improve U.S. military and economic capabilities. The SBIR/STTR Program is mandated by public laws (PL) 97-219, PL 99-443, PL 102-564, PL 106-554, and PL 107-50 and is codified in 15 USC 638. The Department of Defense (DoD) SBIR/STTR Program strives to encourage scientific and technical innovation in areas specifically identified by participating DoD components.

(U) DoD components participating in the SBIR/STTR Program include the: Army , Navy, Air Force, Defense Advanced Research Projects Agency (DARPA), Missile Defense Agency (MDA), Defense Threat Reduction Agency (DTRA), U.S. Special Operations Command (SOCOM), Chemical-Biological Defense Program, National Geospatial-Intelligence Agency (NGA), and the Office of Secretary of Defense (OSD). DoD components participating in the STTR Program include the: Army, Navy, Air Force, DARPA, MDA, and OSD.

(U) The SBIR/STTR Program is executed in three phases. The purpose of Phase I is to determine, insofar as possible, the scientific technical and commercial merit, and feasibility of ideas submitted under the SBIR/STTR Program. Phase II awards are made to firms that have been awarded a Phase I contract on the basis of the results of their Phase I effort and the scientific, technical, and commercial merit of the Phase II proposal. Phase II is the principal research or research and development effort and is expected to produce a well-defined deliverable prototype. Phase III SBIR/STTR efforts are not funded with SBIR/STTR funds and can be considered “follow-on” contracts to Phase II efforts. Under Phase III, companies participating in the SBIR/STTR Program are expected to obtain funding from the private sector and/or non-SBIR/STTR government sources to develop the prototype into a viable product or non-R&D service for sale in military and/or private sector markets.

(U) Since PL 102-564 prohibits the use of any of the SBIR budget to fund administrative costs of the program, program element (PE) 0605790D8Z is the only source of funds for the coordination, administration and execution of the Department’s SBIR/STTR Program. In addition to funding costs for program administration, coordination and execution, PE 0605790D8Z funds essential elements of the SBIR/STTR Program that are required by law including: (a) the development and maintenance of information systems and software

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required for the measurement, evaluation, and effective management of the Department's SBIR/STTR R&D Program; (b) outreach to small technology companies, potential investors in such companies, SDBs WOSBs HBCU/MIs and others, to encourage and facilitate their participation in the SBIR/STTR Programs (e.g. conferences, trade shows, etc.); (c) preparation of the SBIR/STTR R&D solicitations and related publications; (d) support efforts such as administration of the various SBIR/STTR process action teams; (e) development and promulgation of guidance and reference materials to DoD contracting officers, technical monitors, and other personnel involved in administering the SBIR/STTR Programs; and (f) responding to requests for information relative to DoD's SBIR/STTR Program.

B. Program Change Summary:

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Previous President's Budget	1.997	1.999	2.004	2.058
Current FY 2006 President's Budget	1.484	3.440	1.983	2.041
Total Adjustments	-0.513	1.441	-0.021	-0.017
Congressional program reductions	-0.085	-0.059		
Congressional rescissions				
Congressional increases		1.500		
Reprogrammings	-0.371			
SBIR/STTR Transfer	-0.057			
Other			-0.021	-0.017

C. Other Program Funding Summary: N/A

D. Acquisition Strategy: N/A

E. Performance Metrics: These funds are the only source for the coordination, administration and execution of the Department's SBIR/STTR Program. These funds provide for (1) the administration of at least 3 SBIR and 1 STTR Solicitation in FY 2005, (2) At least one Process Action Team during FY 2005, (3) Continual maintenance and upgrading of the information system and database of the DoD SBIR/STTR Program.