

**HOLD UNTIL RELEASED BY THE  
HOUSE COMMITTEE  
ON ARMED SERVICES**

**TESTIMONY OF**

**MR. NORMAN WINARSKY, Ph.D.**

**VICE PRESIDENT, SRI VENTURES**

**SRI INTERNATIONAL**

**BEFORE THE UNITED STATES HOUSE**

**COMMITTEE ON ARMED SERVICES**

**DEFENSE BUSINESS PANEL**

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**The Defense Industrial Base: The Role of Independent Nonprofit Research & Development Organizations**

**Mr. Norman Winarsky, Ph.D.  
Vice President, SRI Ventures  
SRI International**

Chairman Shuster, Congressman Larsen, and Members of the Panel:

Thank you for the opportunity to submit written testimony on the contributions of independent nonprofit research and development organizations to the defense industrial base.

I am Norman Winarsky, Vice President for Ventures of SRI International, a nonprofit research and development organization with facilities in Menlo Park, California, and other locations across the United States and internationally, including Princeton, New Jersey; State College, Pennsylvania, and Tokyo, Japan.

SRI International, founded as Stanford Research Institute in 1946, performs sponsored research and development for governments, businesses, and foundations. SRI is known for world-changing innovations in computing, health and pharmaceuticals, chemistry and materials, sensing, energy, education, national defense, and more.

We bring our innovations from the laboratory to the marketplace through technology licensing, new products, and spin-off ventures. Our innovations have created entirely new industries, billions of dollars in marketplace value, and lasting contributions to society.

We have started more than forty spin-off companies to leverage our technologies in new commercial applications. For example, SRI's artificial intelligence project for DARPA, called CALO, led to the technology underpinning Siri, the virtual personal assistant in Apple's new iPhone. My role in Siri was co-founder and board member.

Our staff, which now numbers more than 2,100, has won nine Emmys®, an Academy Award®, and DARPA's Award for Sustained Excellence by a Performer. SRI inventor Douglas Engelbart was awarded the National Medal of Technology for the invention of interactive computing and the computer mouse in the 1960s, which led to tremendous contributions to the U.S. economy.

Almost four billion dollars in research and development has been sponsored at SRI in the past decade alone. Customers have also licensed hundreds of SRI patents. Government clients, primarily the Department of Defense, fund approximately ninety percent of our work.

However, I am not here to talk about my organization. Instead, I would like to inform the members of this panel about the important role nonprofit research institutes such as SRI International, Southwest Research Institute, Research Triangle Institute, Midwest Research Institute, Southern Research Institute, Sanford-Burnham Institute, and others play in keeping our armed services strong and ready.

Let me begin by thanking the members of this panel and the entire committee for including in the report accompanying the 2012 National Defense Authorization Act the requirement that the Assistant Secretary of Defense for Research & Engineering brief the members of the Armed Services Committees on DoD policy regarding nonprofits. Our community was encouraged to learn that the members of this committee are concerned that departmental policies may be inhibiting the Services and DoD agencies from accessing the capabilities that independent nonprofit research and development organizations possess. Since we are neither universities nor for-profit corporations, we are sometimes overlooked when procurement policies are established.

Because we are chartered, pursuant to Internal Revenue Code section 501(c)(3), for charitable purposes, nonprofits possess unique advantages over other organizations. For one, we have no shareholders. That means we can focus on providing the warfighter with the best possible solution, being unconcerned about bottom-line considerations such as profit margins, share price, and shareholder satisfaction.

Being independent means we can be impartial. Nonprofit research and development organizations are not affiliated with any government agency, or corporate entity, nor do we endorse products or services. Our goal is to provide independent, impartial, and objective analyses, assessments, recommendations, and advice to the Services and DoD agencies we serve.

Nonprofits maintain a moderate fee structure that we use to improve our inherent capabilities, which results in greater value to the DoD. Our net income is used for new facilities,

advanced scientific equipment, and internally sponsored research. This reinvestment allows nonprofits to remain at the leading edge of developing technologies and fulfills our charter to develop and further advance technologies.

Governments and industry organizations around the globe rely on American independent nonprofit research and development organizations to provide them the tools they need to better serve their citizens and clients. This exposure to extremely diverse technologies and applications enables nonprofits to apply nontraditional and innovative concepts to DoD programs such as hybrid ground vehicles, unmanned aerial vehicles, low-earth orbit satellites, intelligent transportation systems, fuel cell design and development, hydrogen storage, containment of complex hazardous materials, and deep-space science missions.

Nonprofits perform basic and applied research as well as development and, in some cases, limited production in a large number of technical areas, including, but not limited to, the following:

- Advanced materials and structures
- Aerospace electronics, systems engineering and training
- Chemical and chemical engineering
- Cybersecurity
- Energy and environment
- Fuels research
- Information and computing
- Medical and surgical devices

- Persistent surveillance
- Pharmaceutical discovery and development
- Robotics and automation
- Space science and engineering

Again, independent nonprofit research and development organizations are not universities, and they are not for-profit corporations, but DoD acquisition officials treat them like for-profit manufacturers. While universities, Federally Funded Research & Development Centers (FFRDCs), and government laboratories receive sole source contracts, in most cases nonprofits must compete with manufacturers.

Frequently, this means that nonprofits are at a disadvantage because they cannot take the product that is developed and sell it commercially. Our manufacturer competitors can, on the other hand, factor the profit to be realized by the subsequent commercial sales into their bid. More importantly, DoD's failure to use the Competition in Contracting Act exception that allows non-competitive procedures to establish or maintain an essential engineering, research, or development capability is contrary to the intent of Congress. It is clear from the plain language of the statute that Congress authorized sole source awards to nonprofits because it recognized that they, like universities, FFRDCs, and government laboratories, exist to provide a public service, and maintaining their capabilities is in the best interest of national defense.

The current DoD policy of awarding Indefinite Delivery/Indefinite Quantity (ID/IQ) contracts to multiple vendors and then competing each task order issued by the customer among

the selected vendors is costly and time-consuming. For nonprofits, the process can be cost-prohibitive. The goals of giving the warfighter a technological advantage, restraining costs, and maintaining the research and development base would be better served by including nonprofits in the same procurement category as universities, FFRDCs, and government laboratories.

My colleague, Mr. Walter Downing, the Executive Vice President of Southwest Research Institute, recently told me about a conversation he had with a senior DoD official who complained about what he described as a "not invented here syndrome." What the official was referring to is that manufacturers refuse to use the research done by universities, FFRDCs, and government labs in favor of their own parallel research. Consequently, DoD pays for the research twice: once when it pays the university, FFRDC, or lab, and once again when it buys the final product from industry.

There are several reasons why industry may be hesitant to use university-, FFRDC-, or government laboratory-generated research. One is certainly the challenge of transitioning laboratory research into a product that can be manufactured. Nonprofits such as SRI excel at transitioning products from the laboratory to the assembly line. We have a lot of experience with both government agencies and industry. Nonprofits understand the needs of both. Transitioning technology is an important service nonprofits can provide to universities, FFRDCs, and government laboratories. More importantly, it is a service that will benefit the warfighter and the taxpayer.

The nonprofit R&D community would like to have the opportunity to participate in

programs such as the University Affiliated Research Centers (UARC), from which we are currently excluded. If nonprofits were given the opportunity to be designated as UARCs, they could then better support the defense department's mission to support science, technology, engineering, and math (STEM) education. Many of our organizations already provide internships to graduate students and welcome the opportunity to train more.

## **CONCLUSION:**

In his recent testimony before this panel, Mr. Brett Lambert, Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy, stated:

“The United States depends on a robust and capable defense industry to develop, field, and maintain high quality equipment and services that provide the warfighters with unsurpassed technological advantage. Whenever possible and appropriate, the Department allows market forces to create, shape, and sustain industrial and technological capabilities, but we must recognize that the Government's programming and budget decisions have a major influence on key portions of the defense industrial base. Consequently, we must consider the effects of our decisions on competition, innovation, and essential capabilities in the industrial base.”

We hope this panel, and the full committee, will continue to urge DoD to consider the effects of its policy, contrary to the intent of Congress, of treating nonprofits as though they were for-profit manufacturers. Continuing to do so in an era of constrained budgets is counter-

productive, since it results in unnecessary costs and needless delay of product delivery to the warfighter and could result in a shrinkage in the research and development base that is detrimental to our national defense and our national treasury.

On behalf of the independent nonprofit research and development community, we appreciate the role Congress is playing in facilitating a discussion between all sectors of the industrial base and the Department of Defense as to how to best serve the warfighters and the American taxpayer. We look forward to reading this panel's report.

Thank you for the opportunity to appear before this distinguished panel.