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National Science Foundation
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US NSF - Dear Colleague Letter: Supplemental Funding Opportunity for Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) – Phase IB Option

MEMORANDUM

Date: August 24, 2012
To: NSF Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) Grantees
From: Grace Wang, Division Director Division of Industrial Innovation and Partnerships (IIP)
Re: Supplemental Funding Opportunity for Small Business Innovation Research and Small Business Technology Transfer (SBIR/STTR) - Phase IB Option

The Directorate for Engineering's Division of Industrial Innovation and Partnerships' Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs invites all active SBIR/STTR Phase I grantees to participate in the Phase IB supplemental funding opportunity. Phase IB supplements to Phase I grantees are intended to foster partnerships between strategic partners and investors and the SBIR/STTR companies. NSF is offering a mechanism to advance Phase I research and bridge the gap between Phase I and Phase II funding while encouraging partnering as a means to increase the potential for SBIR/STTR grantees to successfully commercialize their technology.

Through this supplemental program, small businesses will be able to effectively leverage funding and investment from interested outside parties on the technology funded in Phase I that could lead to successful commercial products and processes and at the same time provide some of the gap funding required to carry the grantees' effort from Phase I to Phase II. It is anticipated that this research collaboration will not only benefit the small business enterprise but also provide a cost-effective, timely, and risk-reduced approach for large corporations and investors to participate in the development of new technologies, products and services having potentially high commercial impact.

The Phase IB option will provide additional funds to Phase I grantees that are able to obtain third party investment to support the project. The objective of the Phase IB option is to extend the R&D efforts beyond the current grant to meet the product/process/software requirements of a third party investor to accelerate the Phase I project to the commercialization stage and enhance the overall strength of the commercial potential of the subsequent Phase II project. The Phase IB option extends the Phase I grant for six months, and the combined Phase I and IB project will typically not exceed one year in duration for the SBIR grant and one and one half years for the STTR grant. The Phase IB option only applies to Phase I grants that are active on the day these supplemental requests are due. There is no resubmission at a later date if a Phase IB request is declined. Phase I grantees on a no-cost extension are not eligible for a Phase IB award.

OVERVIEW OF WORK TO BE ACCOMPLISHED: The Phase IB supplement will award research supplements to active SBIR/STTR Phase I grantees that are currently conducting Phase I SBIR/STTR research projects. This supplement opportunity is intended to further SBIR/STTR Phase I research and attract third party investment from industrial partners, venture capitalists, angel investors, and State and Federal governments.

Deadline Dates: There are two deadline dates for Phase IB supplemental funding requests, **October 15th** and/or **April 15th**. Note -- Eligible SBIR Phase I grantees have one option to submit a Phase IB supplement request. In the case of STTR Phase I grantees, they also have one option but two potential submission dates.

Document Replaced: This document replaces NSF 10-058.

ELIGIBILITY INFORMATION

Eligibility for Phase IB: The following two criteria must be met to qualify a company to participate in the Phase IB process:

1. Grantee has an active Phase I SBIR or Phase I STTR grant (not on a no-cost extension); and
2. Grantee has obtained a **fully executed investment commitment** (reference definition of third party investor) greater than $30,000.

Organization Limit: Only active SBIR/STTR Phase I grantees are eligible to submit requests for supplemental funding under this Phase IB option.

PI Eligibility Limit: The Principal Investigator must be the PI of an active SBIR/STTR Phase I award.

Outside Funds Eligibility: The eligible outside investments consist of an investment from industrial partners, venture capitalists, angel investors, customers, and non-SBIR/STTR grants and contracts from State and Federal Governments directly tied to the research project envisioned by the Phase I application and its logical extension into Phase II and commercialization.

The third party investor must commit a minimum of $30,000. NSF will contribute up to 50 percent of the outside investment, with a maximum NSF contribution of 20 percent of the Phase I award amount. The additional NSF contribution can be used only for additional research and development tasks related to elements of the project. The third party investment can be used for research or other business related efforts in order to accelerate the innovation toward commercialization of this project. Market research, advertising, patent applications, and refining of the business plan are good examples of uses of the third party investment. A fully executed investment document from the third party investor must specify the amount of the investment, the method by which the investor will provide the funding to the company, and that the funds will be dedicated to fund the technology developed in this project.

The third party investment can be cash, liquid assets, or tangible financial instruments. However, in-kind or other "intangible assets" cannot be used. Loans and investments with contingency clauses are also not acceptable. Self-funding does not qualify for the Phase IB option.

The following Phase IB date table provides a succinct way to describe to the NSF and reviewers the source of the outside investment being leveraged by the NSF Phase IB award. The Phase IB supplemental request is required to have this data table included as part of the IB application (see table below)

What is the amount of the third party investment?	What is the source of the third party investment? (Name of Investor or Partner)	Show how the partnership (with the third party investor) will/could strengthen the Phase I Project	Is the third party investment a result of the Phase I project? Please explain	Justify the budget request based on "new" tasks proposed (e.g. show how the third party and NSF funds will benefit the project)

Limit on Number of Proposals: One per active Phase I grant.

AWARD INFORMATION

- Awards will be made as supplements to active SBIR/STTR Phase I awards (except those on a no-cost extension);
- The maximum supplemental award is 20 percent of the Phase I award (generally a maximum of $30,000 of NSF funding based on $60,000 of outside investment).;
- For outside investments less than $60,000, the supplemental amount of NSF funding is determined on the basis of 50 percent of funding provided by the outside party;
- A minimum of $30,000 of outside investment is required to be eligible for the supplemental grant; and
- When the supplement is awarded, the period of performance of this original grant is extended by up to six months. Important note – a Phase IB supplement request does not extend the original eligibility dates for submission of the Phase II proposal.
- Approximately 200 supplements will be awarded; pending availability of funds.

PREPARATION AND SUBMISSION INSTRUCTIONS

Requests must be submitted according to the instructions for submitting Phase IB supplemental funding requests found on the SBIR/STTR home page http://www.nsf.gov/eng/iip/sbir/ under *Supplemental Funding Opportunities*.

Proposals must address two issues: the research activities that will be funded by the NSF to strengthen scientific and engineering feasibility; and, the business development and marketing activities which will be supported by the outside funds.

REVIEW INFORMATION

Requests for supplemental funding submitted in response to this *Dear Colleague Letter* will be reviewed by National Science Foundation program officers in the Division of Industrial Innovation and Partnerships, Directorate for Engineering. The review will focus on both the technical and the commercial plans in the proposal.

CONTACT PERSONNEL

Questions about this letter should be directed to your program officer in the Division of Industrial Innovation and Partnerships, Directorate for Engineering. The name of your Program Director is found in your award letter.

OTHER SUPPLEMENTAL OPPORTUNITIES OF INTEREST

All active SBIR/STTR Phase II grantees are invited to participate in other supplement opportunities available at http://www.nsf.gov/eng/iip/sbir/Supplement/index.jsp

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