



ACQUISITION
AND SUSTAINMENT

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

MEMORANDUM FOR COMMANDER, UNITED STATES CYBER
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DEFENSE AGENCY AND DOD FIELD ACTIVITY DIRECTORS

**SUBJECT: PILOT PROGRAM TO INCENTIVIZE CONTRACTING WITH EMPLOYEE-
OWNED BUSINESSES**

On October 10, 2024, the U.S. Department of Defense (DoD) published a final rule to amend the Defense Federal Acquisition Regulation Supplement to implement Section 874 of the National Defense Authorization Act (NDAA) for FY 2022 as amended by Section 872 of the NDAA for FY 2024. The rule took effect on November 25, 2024.

The final rule allows the noncompetitive award for certain follow-on contracts to a wholly employee-owned business through an employee stock ownership plan (ESOP) that meets the definition of a “qualified business.” Section 874 as amended defines a “qualified business” as an S corporation (as defined in section 1361(a)(1) of the Internal Revenue Code of 1986) for which 100 percent of the outstanding stock is held through an employee stock ownership plan as defined in section 4975(e)(7) of such code.

Notwithstanding title 10 U.S.C., § 3201 (formerly § 2304), Contracting Officers (COs) supporting a program selected for participation in the pilot will be able to award a follow-on contract for the continued development, production or provision of products or services that are the same or substantially similar to those procured by DoD under a previous contract with a “qualified business” under the authority of title 10 U.S.C., § 3204(a)(5).

Participation in the pilot program is subject to the following:

- COs shall use the procedures in this memorandum to request and obtain approval from the Defense Pricing, Contracting, and Acquisition Policy, Contract Policy Directorate (DPCAP/CP) for each contract proposed for award under the pilot program.
- Only DoD COs may submit the attached application to participate in the pilot program.

- To receive an award under the pilot program, the qualified business must have a minimum performance rating of Satisfactory (or the equivalent) for the predecessor contract in the Contractor Performance Assessment Reporting System (CPARS) (see Federal Acquisition Regulation (FAR) Subpart 42.15, Contractor Performance Information). If the predecessor contract is not in CPARS, provide alternative evidence of satisfactory performance under predecessor contract.
- The CO shall prepare a justification and approval for each contract approved for award under the pilot program, citing the authority at FAR 6.302-5, Authorized or required by statute.
- The contract must be for the continued development, production, or provision of products or services substantially similar to those procured under the predecessor contract awarded to the contractor by or for DoD.
- Qualified businesses are limited to one sole-source follow-on contract award for each predecessor contract unless the head of the contracting activity grants a waiver.

DoD COs interested in participating in the pilot program must submit a completed application form (Attachment 1) to the DPCAP/CP at osd.pentagon.ousd-a-smbx.dpc-cp@mail.mil in accordance with agency procedures. The email subject line should read: ESOP APPLICATION PACKAGE (Agency Name_Date). DPCAP/CP will respond to submissions within 30 days of receipt. Upon approval by DPCAP/CP, the CO may negotiate and award a follow-on contract without providing for full and open competition under the authority of FAR 6.302-5 and this pilot program pursuant to section 874 as amended.

If accepted into the pilot program, contractors must provide the information in the data collection template (Attachment 2) to the CO. The CO must then submit this completed template to DPCAP/CP at osd.pentagon.ousd-a-smbx.dpc-cp@mail.mil upon completion of 6 months of contractor performance or no later than 30 days after the contract end date, whichever is sooner.

Attachment 3 provides a list of FAQs to address common inquiries and concerns and to assist in understanding and implementing the program. The authority to award contracts under this subpart expires on December 27, 2029. My point of contact is Ms. Adeline Maissonet, who can be reached at osd.pentagon.ousd-a-smbx.dpc-cp@mail.mil.

Sincerely,

John M. Tenaglia
Principal Director,
Defense Pricing, Contracting, and
Acquisition Policy

Attachments:
As stated

ESOP PILOT APPLICATION FORM

Agency		Contractor Name	
Predecessor Contract Number		Contractor CAGE	
Proposed Contract Number		Business Size	
Contract Type		Total Contract Value	
Contract Action Expected Award Date		Period of Performance / Delivery	
Contracting Officer			
Contracting Officer Email			
Contracting Officer Phone Number			

Description of Prior RequirementDescription of Current Requirement

The contract must be for the continued development, production, or provision of products or services that are the same as or substantially similar to those procured under the predecessor contract awarded to the contractor by or for DoD.

Question	Response	Notes
Did the business verify its status as a qualified businesses wholly-owned through an Employee Stock Ownership Plan during the predecessor contract? Provide documentation (e.g. Trust Agreement, Trustee Certification, Employee Retirement Income Security Act (ERISA) compliance documents, Summary Plan Description (SPD), Annual ESOP report, Form 5500).		
Did the business represent that no more than 50% of the amount paid under the follow-on contract will be expended on subcontracts?		
Has the business demonstrated satisfactory performance on the predecessor contract, as evidenced by a minimum performance rating of Satisfactory (or the equivalent) in the Contractor Performance Assessment Reporting System (CPARS) for each rating period of the contract's Period of Performance? Provide CPARS documentation. If the predecessor contract is not in CPARS, provide alternative evidence of satisfactory performance under that contract. (See Federal Acquisition Regulation (FAR) Subpart 42.15, Contractor Performance Information)		
Will the Contracting Officer prepare a justification and approval for contract award under the pilot program citing the authority at FAR 6.302-5, Authorized by Statute?		
Is this the first time the contractor is being awarded a contract in the pilot program for this requirement? If no, was a waiver signed by the head of contracting activity (HCA)? Provide copy of HCA waiver.		
Does the Contracting Officer/Agency agree to submit the data collection template at Attachment A2 to osd.pentagon.osd-a-smbx.dpc-cp@mail.mil upon completion of 6 months of contractor performance or not later than 30 days after the contract end date, whichever is sooner?		
Will the contract include all provisions and clauses associated with the ESOP pilot, specifically 252.270-7000, 252.270-7001, and 252.270-7002?		

Acknowledgement and Certification Statement

I, the undersigned, hereby certify that I understand the requirements of the Employee Stock Ownership Plan (ESOP) pilot program and have reviewed the criteria with the contractor. By signing this document, I attest that all information provided is accurate and factual to the best of my knowledge.

Name	Date	Signature

Pilot Program to Incentivize Contracting with Wholly Employee Stock Ownership Plan Businesses

Data Collection Template

**Pilot Program to Incentivize Contracting with Wholly Employee Stock Ownership Plan
Businesses**

**Authorized under Section 874, National Defense Authorization Act for Fiscal Year 2022 As
Amended by Section 872, National Defense Authorization Act for Fiscal Year 2024**

- I. Program/Contract Information *(Contracting Officer to complete)*
 - A. Cognizant Contracting Activity: *(Buying office, Command, Department or Agency):*
 - B. Description of Requirement: *(Product, quantity, period of performance):*
 - C. Contract value of the requirement:

- II. Prime Contractor Information *(Contracting Officer to complete)*
 - A. Contractor Name:
 - B. Contractor CAGE:
 - C. Business size:

- III. Contractor Feedback *(Contracting Officer to collect answers from participating Contractor and may attach copies of contractor correspondence that address these questions.)*
 - A. How many years has the contractor been wholly-owned by its employee stock ownership plan?
 - B. Has the contractor experienced challenges in attracting and retaining a talented workforce in a competitive market?
 - C. Has the contractor experienced any challenges related to its corporate ownership structure that hinder its ability to contract with the DoD to scale its technologies and capabilities?
 - D. Has the contractor experienced any challenges related to its corporate ownership structure in obtaining capital needed to bridge the funding gap between prototype demonstration and full-scale development?
 - E. What is the contractor's employee retention rate?
 - F. What is the contractor's total retirement plan value?
 - G. What is the average per employee retirement savings?

Pilot Program to Incentivize Contracting with Wholly Employee Stock Ownership Plan Businesses

IV. Contracting Officer Feedback (*Contracting Officer to complete*)

- A. Summary of contractor performance on prior contract.
- B. Summary of contractor performance during follow-on contract.
- C. Identify and discuss any benefits or disadvantages the contracting activity or agency may have experienced using the pilot program.
- D. Identify any best practices the agency may have implemented as a result of the pilot program.
- E. Please provide any other feedback or information the agency would like to share on the experience using the pilot program.

**NDAAs for FY22 and FY24
Employee Stock Ownership Plan Pilot Program FAQ**

1. What is the ESOP Pilot Program that is Authorized by Section 874 of the National Defense Authorization Act (NDAA) for FY22 as Amended by Section 872 of the NDAA for FY24?

The ESOP Pilot Program that is authorized by section 874 of the NDAA for FY22 as amended is a pilot program to provide opportunities for Employee Stock Ownership Plan (ESOP) companies to participate in the federal contracting process.

2. Are there specific deadlines or timeframes for applying to the ESOP Pilot Program?

No. The ESOP Pilot Program does not have a set application timeframe or a cutoff date for submitting applications. The program will operate on a rolling basis, allowing applications to be submitted at any time during the duration of the program. Applications will be reviewed and considered for award continuously through the pilot program end date of December 27, 2029.

3. Is there a limit to the number of contracts awarded in Phase II of the ESOP program?

No. There is no limit to the number of contracts that may be awarded through Phase II of the ESOP Pilot Program.

4. Can a company be a Women-Owned Small Business (WOSB) and an ESOP?

No. Due to legal restrictions, a company cannot be both a Women-Owned Small Business (WOSB) and an Employee Stock Ownership Plan (ESOP). ESOPs require 100% employee ownership, which conflicts with the ownership requirements of a WOSB. See 13 CFR § 127.201 for more details.

5. Do contracting officers still need approval from the Defense Pricing, Contracting, and Acquisition Policy, Contract Policy Directorate (DPCAP/CP) for each contract proposed for award?

Yes. Approval from DPCAP/CP must be obtained for each contract proposed for award under the ESOP Pilot Program.

6. Can a qualified business receive multiple sole-source awards through this program?

Yes. A qualified business is generally limited to one follow-on contract that will be awarded on a sole-source award to the incumbent per predecessor contract. However, a waiver can be approved by the head of the contracting activity (HCA) or a delegated to an official at a level no lower than one level above the contracting officer. Such a waiver duly executed will allow for additional sole-source awards to the incumbent contractor.

7. Is the ESOP Pilot Program applicable to contracts below the Simplified Acquisition Threshold (SAT)?

No. The ESOP Pilot Program is not applicable to contracts below the SAT.

8. Is the ESOP Pilot Program applicable to commercial products?

Yes. The ESOP Pilot Program is applicable for the acquisition of commercial products excluding COTS items.

9. Can a large business participate in the program?

Yes.

10. What is the timeframe from submission to approval of my application package?

DPCAP/CP is estimating 30 days for approval of an application package, provided the submission is clear, accurate and complete. However, the entire approval process may take longer depending on the specific circumstances and complexity of the request.

11. Who can submit an application package for participation in the pilot program?

Only DoD contracting officers (COs) may submit an application to participate in the pilot program.

12. What documentation do I need to submit with the application package?

COs need to submit a completed application form along with all supporting documentation requested in the form as attachments. This typically includes, but is not limited to, proof of ownership structure, certification documents, and any additional information specified in the application form. Ensure all required documents are thoroughly reviewed and attached to avoid any delays in the processing of your application.

13. How do I submit my application to the program?

DoD COs interested in participating in the pilot program shall submit applications to osd.pentagon.ousd-a-s.mbx.asda-dp-ccontractpolicy@mail.mil in accordance with agency procedures.

14. What happens after I submit my application?

After an application is submitted, DPCAP/CP will review it to determine whether the contractor and requirement meet the program's eligibility criteria. If the contractor is eligible for inclusion in the pilot program, DPCAP/CP will respond via email with an acceptance into the program.