

BOARD OF DIRECTORS
of Connecticut Innovations, Incorporated
Minutes – Regular Meeting
Thursday, April 26, 2012

A regular meeting of the **Board of Directors of Connecticut Innovations, Incorporated** (the “Board”) was held on April 26, 2012 at the Office of Connecticut Innovations, Inc., 865 Brook Street, Rocky Hill, CT.

1. **Call to Order:** Noting the presence of a quorum, Catherine Smith called the regular Board meeting to order at 12:07 p.m. Participating: Karen Buffkin representing the Office of Policy and Management (by phone); Daniel Esty, Commissioner of the Department of Energy and Environmental Protection; Lou George; Alan Greene (by phone); Robert Kennedy, Board of Regents of Higher Education; Carol Muradian (by phone); Stephen Nocera; John Olsen (by phone); Paul Pescatello; Rafael Santiago; George Schiele (by phone); and Catherine Smith, Chairperson of CI and Commissioner of the Department of Economic and Community Development.

Absent: Mun Choi; and Drew Harris.

Staff Attending: George Bellas, Claire Leonardi, Peter Longo, Shelly Mondo, Charlie Moret, Deb Santy, Emily Smith, and Dave Wurzer.

Others Present: Kip Bergstrom, DECD; Casey Pickett, DECD; and Scott Murphy, Shipman & Goodwin.

2. **Approval of Minutes:**

Catherine Smith asked the Board members to consider the minutes from the January 23, 2012 and February 8, 2012 meetings.

Upon a motion made by Mr. Nocera, seconded by Mr. Santiago, the Board members voted in favor of adopting the minutes from the January 23 2012 and February 8, 2012 meetings as presented (Ms. Buffkin abstained from the vote, and Mr. Esty and Mr. Schiele were not present for the vote).

3. **Committee Reports:**

Finance, Operations and Compensation Committee (“Finance Committee”)—Ms. Muradian mentioned that the Finance committee met on February 26 and reviewed the Budget to Actual Financial Analysis for the second quarter of fiscal year 2012 and recommended that the report be presented to the Board. Mr. Bellas reported on the revisions approved by the Finance Committee, which

included an increase in advisory fees as a result of due diligence efforts on additional new investments, SBIR consulting costs associated with the Federal SBA FAST grant award and an increase in the capital expenditure budget for furniture needed for staff expansion. He mentioned that \$100,000 was recently awarded from the SBA and another \$55,000 is anticipated. Mr. Bellas explained the changes made to the format of the financial reports in an effort to more clearly show the different kinds of activities now being done by CI. He noted that the 2013 proposed budget will also be presented to the Finance Committee for review before consideration by the Board. Mr. Bellas summarized that there is nothing unusual to report with respect to the second quarter report. In response to a question, Mr. Bellas stated that staff expected a loss for the year. He stated that typically, CI is able to cover a significant portion of operating expenses with interest earned on investments. Lower interest rates over the past several years have significantly reduced this source of income for CI. Catherine Smith noted that the activities for CI have increased dramatically in 2012, and CI is not likely to see returns on these investments for some time.

A discussion ensued on the bond funding allocated to CI over the next five years. A question arose as to whether the funds allocated to CI annually can be carried into the next year if not utilized. Attorney Murphy stated that the funding is from bond proceeds and not an annual appropriation that lapses at the end of the current fiscal year if not expended. While the actual issuance of bonds is subject to Bond Commission approval, legislative bonding authority ordinarily continues to be effective unless repealed by later legislative action. Attorney Murphy offered to confirm this conclusion and report back to CI. A suggestion was made to try to utilize as much of the annual allocation as possible. Some concern was expressed that CI probably will not spend the full allocation, because the funds were not confirmed until the end of October, and CI has not had sufficient time to ramp up programs.

Catherine Smith stated that the reason CI did not receive the full allocation for 2012 was because of cash on hand at the time of the request. At present the pipeline for new investments has increased significantly. Ms. Leonardi noted that approximately \$7,000,000 is for follow-on investments, approximately \$7,500,000 is for new deals in the pipeline, approximately \$2,000,000 is for the preseed and technology innovation programs, and approximately \$500,000 is for SBIR. By September, staff expects the cash on hand will be below \$5,000,000. Ms. Leonardi stated that staff is putting together a request to the State Bond Commission for the full \$25,000,000 going forward and will provide information about projections. Ms. Leonardi mentioned that staff will be tracking and monitoring the performance of the various programs funded with the bond allocation to ensure CI is investing in the right places.

Ms. Leonardi noted the importance of looking at CI's portfolio as well as the Connecticut Development Authority's ("CDA") portfolio in light of the anticipated merger and to avoid negatively impacting CDA's bond rating.

In response to a question about measuring results of the investment in the IP Factory, Ms. Leonardi mentioned that the IP Factory will be asked to provide an update to the Board; and in order to obtain additional funding from CI, the IP Factory has to meet certain milestones.

Audit, Compliance and Governance Committee ("Audit Committee")—Mr. Pescatello provided the Audit Committee report. He mentioned that the Audit Committee met on March 22, and recommends that Karen Buffkin be appointed to the Finance Committee.

Upon a motion made by Mr. Nocera, seconded by Mr. George, the Board voted unanimously in favor of appointing Karen Buffkin to the Finance, Operations and Compensation Committee.

Mr. Pescatello mentioned that the Audit committee discussed the board committee structure and whether members of the Audit Committee should be allowed to serve on other committees. He noted that the work load for the Eli Whitney Advisory and Investment Committees has increased tremendously. Mr. Pescatello stated that Ms. Leonardi is in the process of developing a recommendation on how to structure the board investment committees following the merger with CDA. In an effort to have the merged organization up and ready by July 1, Catherine Smith asked for any input on governance issues as soon as possible so that revised documents are ready and approvals done at or before the June Board meeting.

Eli Whitney Investment Committee ("Investment Committee")—Mr. Schiele explained the structure of both the Eli Whitney Advisory and Investment Committees. He noted the significant increased activity and indicated the need to either have longer meetings or more meetings if the increase in activity continues. Mr. Schiele explained that at the last meeting, the committees were asked to consider several loans and there was a sense from the members that a separate committee should be formed to review loan activity; however, in the interim, the Advisory and Investment Committees would continue to review the loan proposals. Catherine Smith discussed the possibility of creating one or two other committees—one to review the loan proposals and another to review the preseed loans or to delegate some of the responsibility for the preseed loans to staff, with appropriate authorizing legislation. She indicated the possibility of having to consider a different structure as a result of the merger. Catherine Smith noted the thorough vetting process performed by the Advisory Committee and stated how appreciative the Board is for the work performed by the committee members. Mr. Schiele also noted the importance of staff having

sufficient time to manage their increased workloads and to prepare quality presentations to the Committees. Ms. Leonardi mentioned that five staff members have been recently added to CI. She indicated that the more experienced staff is in the process of training and acclimating newer staff. Ms. Leonardi mentioned that staff is evaluating the committee presentation process in an effort to be more efficient and allow more time for input and discussion by the committee.

4. Executive Director Report:

Ms. Leonardi stated that she has had the opportunity to meet all of the Board members and thanked the Board and committee members for their service and time. Over the last two months, Ms. Leonardi stated that she has been meeting people both internally and externally. She indicated that she is in the process of developing recommendations on how to make improvements, to streamline processes, to handle the growth in the organization, and how to be responsive to people. Ms. Leonardi mentioned that an in *National Geographic's* latest publication, Dr. Cato Laurencin's discovery was included as a regenerative medicine breakthrough. This technology would become the science behind CI portfolio company Soft Tissue Regeneration.

Emily Smith provided an update on external relations' issues. She mentioned that CI sponsored four events in February and March and had tables at each event to help generate new and better contacts in the venture capital community. She spoke about some of the events coming up. Emily Smith stated that there have been approximately 135 media hits since January, and CI continues to help with efforts to get the word out about CI portfolio companies and expand their reach to a broader audience. Catherine Smith suggested taking material from the Department of Economic and Community Development ("DECD") and a representative from DECD to talk about other opportunities.

Mr. Longo reported on the investment activities. He stated that CI has currently has 70 portfolio companies, 21 of which are preseed. Total approvals for fiscal year 2012 through March 31, 2012 are approximately \$19,500,000 for 37 companies, 23 of which are new companies and 7 are relocations from other states. Mr. Longo stated that total fundings through March 31, 2012 are approximately \$16,100,000. He noted that approximately \$48,000,000 in additional investments has been leveraged with CI's funds. Pending closings are approximately \$7,700,000, and expired/declined approvals are \$1,600,000. Mr. Longo reported that to date, total exits are approximately \$6,000,000 compared with \$11,000,000 in fiscal year 2011. He noted that 791 jobs have been created as a result of the current portfolio companies funded by CI.

Mr. Longo provided an update on the Angel Investor Tax Credit Program. He mentioned that 38 businesses have been qualified, and 71 investments have been made by angel investors. Mr. Longo stated that \$9,600,000 has been

invested in 28 qualified businesses, \$3,200,000 of tax credits has been reserved and \$2,400,000 of tax credits has been issued.

With respect to the Seed Fund Initiative, Mr. Longo reported that a total of \$8,500,000 has been invested in 19 companies, 14 of which are active companies in CI's portfolio. Approximately \$11,500,000 of funding remains available under the program. In response to a question, Mr. Longo stated that when a company is sold, the funding goes back to CI's general fund.

Mr. Moret discussed the TechStart Fund. He mentioned that the program was approved in December 2011 and launched in January 2012. Mr. Moret stated that 80 applications were received, 39 companies qualified. He mentioned that 9 teams were selected to receive \$25,000 each under the program, 2 of which were student teams. The selected teams are attending a 10-week TechStart Accelerator which commenced on March 5 at CTech. He played a video from one of the teams selected to receive funding. Mr. Moret spoke about some of the teams and noted some of the opportunities, including providing new jobs in Connecticut. Invitations will be sent to the Board for the investors' presentation scheduled for May 18. A discussion ensued on the different competitions, inventions and entrepreneurial activities in Connecticut. A suggestion was made to track the various competitions and activities on the CTiHUB.

Mr. Moret reported on the Preseed Fund. He mentioned that approximately \$4,210,000 of the \$8,000,000 available has been committed. To date 29 preseed applications have been approved, and CI continues to receive approximately 3 to 5 applications per month. The Board inquired about the timeframe from application to closing and encouraged staff to look at ways to speed up the process and close the loans as quickly as possible.

Mr. Moret discussed the CTech Program. He stated that Continuity will be moving out and Notifyi will be moving in. Mr. Moret mentioned that United Illuminating has committed to continuing its role as a founding sponsor. He mentioned that the activity in Bridgeport remains slow with only three tenants.

Ms. Santy reported on SBIR. She provided a financial update and mentioned that the actual funding received is \$4,500,000. The additional \$500,000 not anticipated in the budget is from the challenge/fellowship grant. Ms. Santy stated that one new hire was made. She spoke about some of the SBIR companies that Senator Blumenthal visited and noted that 28 companies came to CI to meet with Senator Blumenthal. The Governor has confirmed that he will open the SBIR Global Trade Summit that will start on July 24. Ms. Santy mentioned that the CTiHUB is moving ahead, and there are currently approximately 600 members. She indicated that the CTiHUB now has an application on the new iPhone/iPad.

Ms. Smith provided an update on the Stem Cell Research Initiative. She stated that the grant review meeting is scheduled for June 11, 2012 and June 12, 2012 if the process is not completed in one day. Ms. Smith indicated that the Connecticut Academy of Science and Engineering is managing the peer review process on behalf of the Stem Cell Research Advisory Committee. She noted that CI will be assisting in an evaluation of how the State's investment has helped to leverage other funding and create jobs. The results from the evaluation will be shared with the CI Board. The Request for Proposals process for the 2013 round of funding will begin in September, and it is anticipated that the RFP will be sent out in October.

5. Update on CI/CDA Merger:

Ms. Leonardi provided an update on legislation merging CI and CDA. She mentioned that the bill has gone through both the Commerce Committee and the Government Administration and Elections Committee. Amendments to the bill are being finalized. Ms. Leonardi stated CI has met with CDA to discuss any potential conflicts or anything that may hinder a smooth merger. She indicated that the two agencies will prepare separate budgets; and once the bill is approved, a revised combination budget will be prepared. Ms. Leonardi stated that CI and CDA are working closely with legal counsel to develop best practices and draft revised bylaws, operating procedures and personnel policies. She noted that a legal notice will have to be published in May so that the Procedures can be adopted in June and ready for implementation on July 1. Ms. Leonardi mentioned that the documents will be presented first to the Audit Committee; and if there are any controversial issues, a special Board meeting may be necessary to obtain further input. Ms. Leonardi talked about some of the opportunities with the combined organization. After the merger with CDA, the approximate number of employees, including CEFIA employees will be 90.

6. Compensation Discussion:

Ms. Leonardi indicated the need to look at the compensation of all the employees and prepare a comprehensive benchmark to ensure that the appropriate salary ranges are in place and are commensurate with experience and qualifications. She noted the importance of retaining valuable employees and ensuring that CI has competitive salaries. Noting that CDA employees work 35 hours a week, and CI employees work 40 hours a week, Ms. Leonardi indicated the need to work this issue out.

7. Legal RFP:

In accordance with the Quasi-Public Agencies Act, Ms. Leonardi stated that a Request for Proposals ("RFP") for legal services was issued. She stated that CI is required to issue an RFP at least once every three years for certain services, including legal services. In light of the merger and some of the uncertainties, Ms.

Leonardi noted that CI intends to hire legal counsel for a one-year period rather than the typical three-year period. She indicated that CI received 9 responses. Ms. Leonardi mentioned that legal fees typically range between \$40,000 and \$50,000 a year. In addition to special counsel services, CI retains counsel for each of the deals, and those legal fees are paid out of the proceeds of the loans.

Ms. Leonardi stated that CI typically approves a number of law firms but utilizes one firm as a “preferred provider” for investments. Other approved firms have been used where conflicts exist or specialized knowledge is needed. She mentioned that staff will be reviewing this process to determine whether the practice being used is the right model for CI. In response to a question, Ms. Leonardi noted that staff recognizes the sense of urgency with reviewing these issues.

8. Jackson Lab Update:

Mr. Bellas mentioned that a facilities loan disbursement of \$1,230,000 was made to Jackson Laboratory for closing costs and temporary facilities costs. Additionally, a request to purchase approximately \$600,000 of information technology equipment and software for the use in the temporary facility has been approved. Mr. Bellas indicated that a RFP for a construction manager was issued. It was noted that Jackson Laboratory is already hiring people in Connecticut. To date, it appears that everything is on schedule with the temporary facility.

9. Innovation Eco System Statewide Manager Contract Approval:

Casey Pickett, Director of Innovations at DECD, discussed the Innovation Ecosystem Program. He noted that the program was created as a component of the 2011 “Jobs Bill” and approved by the CI Board in December 2011. The approval included funding of \$4,800,000 for the first year and includes statewide and local hub elements. Mr. Pickett discussed the program objectives and the five key innovation ecosystem strategies. In response to a question, Mr. Pickett stated that it is not yet known how many hubs will be created or the priority of each hub. This information will be determined following the RFP process. A suggestion was made to develop a hub that is unique to Connecticut. A discussion ensued on the location of the hubs, Chairperson Smith suggested there would be time to discuss hub proposals in the next Board meeting and that the focus of discussion in this meeting was on the statewide system elements.

Mr. Pickett discussed the statewide system elements up for award. He reviewed the application process and selection criteria. Mr. Pickett talked about the applicants that responded to the Request for Qualifications, the applicants approved to respond to the Request for Proposals and the applicants recommended for selection of contract approval.

Mr. Pickett reviewed the projected budgets for fiscal year 2012 and fiscal year 2013. He discussed the distribution of funds for Hubs, the IP Factory, DECD, system management by CTC, system management by CERC, the internship program and system elements. In response to a question, Ms. Leonardi mentioned that staff is working with Mr. Pickett to develop metrics to determine success and appropriate time frames. At the next meeting, the Board would like a summary of the contracts and metrics. The Board will be kept abreast on a regular basis.

Upon a motion made by Mr. Esty, seconded by Mr. George, the Board voted unanimously in favor of approving the Innovation Eco System Statewide System Manager Contract and projected budgets for fiscal years 2012 and 2013 as presented herein.

10. Other Business:

There was no other business to discuss.

11. Date of Next Board Meeting: May 31, 2012.

12. Adjournment: Upon a motion made by Mr. Olsen, seconded by Mr. Santiago, the Board voted unanimously in favor of adjourning the April 26, 2012 meeting at 1:55 p.m.

Respectfully submitted,

Catherine Smith
Chairperson of CI