

BOARD OF DIRECTORS
of Connecticut Innovations, Incorporated
Minutes – Regular Meeting
Thursday, May 31, 2012

A regular meeting of the **Board of Directors of Connecticut Innovations, Incorporated** (the “Board”) was held on May 31, 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 9:38 a.m. Participating: Karen Buffkin representing the Office of Policy and Management (by phone); Mun Choi; Daniel Esty, Commissioner of the Department of Energy and Environmental Protection; Lou George; Alan Greene; Drew Harris; Robert Kennedy, Board of Regents of Higher Education (by phone); John Olsen (by phone); Paul Pescatello; Rafael Santiago; George Schiele; and Catherine Smith, Chairperson of CI and Commissioner of the Department of Economic and Community Development.

Absent: Stephen Nocera.

Staff Attending: George Bellas, Joe Casparino; Pamela Hartley; Claire Leonardi, Peter Longo, Shelly Mondo, Charlie Moret, Pauline Murphy, Dan Wagner, and Dave Wurzer.

Others Present: Donald Kirshbaum, State Treasurer’s Office; Casey Pickett, DECD; and Scott Murphy, Shipman & Goodwin.

Catherine Smith asked the Board to consider adding to the agenda an executive session at the end of the meeting to discuss a personnel matter.

Upon a motion made by Mr. Greene, seconded by Mr. George, the Board members voted unanimously in favor of adding to the agenda an executive session at the end of the meeting to discuss a personnel matter (Mr. Esty was not present for the vote).

Catherine Smith mentioned that Carol Muradian has resigned as a member of the Board. She acknowledged the dedication, work and commitment Ms. Muradian has provided CI with many years of volunteer member of the Board. Ms. Leonardi stated that someone will be contacting the Board about scheduling a luncheon to honor Ms. Muradian.

2. Approval of Minutes:

Catherine Smith asked the Board members to consider the minutes from the April 26, 2012 meeting.

Ms. Leonardi suggested an amendment on Page 7, under the discussion of the Innovation Ecosystem to clarify how the funds would be paid.

Upon a motion made by Mr. Schiele, seconded by Mr. Choi, the Board members voted in favor of adopting the minutes from the April 26, 2012 with the amendment suggested (Mr. Esty was not present for the vote).

3. Committee Reports:

Finance, Operations and Compensation Committee (“Finance Committee”)—Ms. Leonardi reported on behalf of the Finance Committee. She stated that a benchmark study will be performed to ensure that appropriate and competitive salary ranges are in place and that the job descriptions accurately reflect the duties being performed by staff. Ms. Leonardi mentioned that the Finance Committee reviewed and approved changes to various job descriptions and approved two new job positions—Executive Assistant and Information Technology Administrator. She noted that in 2012, CI significantly increased the investment professionals, and it is necessary in the 2013 fiscal year to increase the administrative infrastructure. Ms. Leonardi noted that the Finance Committee spent a significant amount of time going through the proposed 2013 fiscal year budget which will be discussed later during the meeting in detail by the Board.

Audit, Compliance and Governance Committee (“Audit Committee”)—Mr. Pescatello provided the Audit Committee report. He mentioned that the Audit Committee will meet on Monday, June 4, to discuss the audit plan for the fiscal year 2012 audit. Ms. Leonardi recommended that the Board considers amendments to CI’s Operating Procedures, subject to the completion of the merger with the Connecticut Development Authority (“CDA”). She explained that the proposed revisions reflect the two organizations working together.

Ms. Smith indicated that it is anticipated that the language regarding the merger of CI and CDA will be included for consideration by the legislature during the special session which begins June 12. Ms. Buffkin stated that she has not heard of any opposition, but it is unpredictable whether the proposed merger will be taken up during the special legislative session. Questions arose regarding the difference in the work week for CI employees and CDA employees. Ms. Leonardi mentioned that this issue needs to be worked out and will be considered along with the benchmark study to ensure fair compensation. It was noted that the amendments to the Operating Procedures have been discussed

with both CI and CDA staff as well as being reviewed by Shipman & Goodwin, CI's counsel. A question arose regarding Sections VII and VIII and the rationale for the increase in contracting for personal services. Attorney Murphy explained that this amount has not changed for a long time and that other the threshold for this purpose is a matter of board discretion. In response to a question about a majority vote rather than a 2/3 vote of the Board in Section XII, Ms. Leonardi explained the two step process for consideration of strategic economic development opportunities. She noted that the majority vote will help when there are quorum issues. After discussion on how to proceed, there was general consensus to defer consideration of the proposed amendments to the Operating Procedures until the next Board meeting. Any questions or comments on the proposed changes should be provided to Ms. Leonardi prior to the next Board meeting.

Eli Whitney Investment Committee ("Investment Committee")—Mr. Schiele noted that the Eli Whitney Advisory and Investment Committees had a busy year and fundings year to date have already exceeded the total projects funded in fiscal year 2011. Ms. Leonardi noted that CI's investments through May of \$21,000,000 have leveraged approximately \$53,000,000. Mr. Longo reported on the activity of the Investment Committee. He indicated that the Investment Committee approved \$25,088,000 of investments through May, and staff intends to request approval for additional \$1,500,000 to \$2,000,000 of investments in June. Mr. Longo noted that the activity is significantly higher than last year. He reported that there are approximately \$8,400,000 in pending closings of which approximately \$4,500,000 should be closed before the end of the fiscal year. Mr. Longo stated that the pipeline continues to be strong, and the some of the preseed program investments are moving on to seed investments for CI.

The Board discussed CI's risks with the investment portfolio. It was noted that CI while the organization strives to make a profit, CI's investments are much riskier. There was consensus that when CI makes a riskier investment, the reasons should be clearly identified so that if the investment fails in the future, there is a clear record of the rationale for making the investment. A suggestion was made to risk rate all of the deals to help the Board/Committee make decisions. Mr. Moret explained under the Pre-seed Program that each pre-seed loan receives a Technology Readiness Level score (TRL) that is presented to the investment committee. This score can help staff to manage the portfolio risk by targeting a preferred TRL minimum of six. It was noted that CDA also evaluates the risks of their investments.

A discussion ensued on the dispositions and exits. For future reports, the Board asked staff to include information on the original investments (the others investing, the reason for the exit, business logics of the underlying financials, losses/gains) and some of the lessons learned from the dispositions/exits to help ongoing success. The Board discussed the appropriate avenue for receiving and

digesting the information received from staff because some of the information may be proprietary information that is considered exempt from public disclosure.

4. Executive Director Report:

Ms. Leonardi spoke about CEFIA moving to a financing model and mentioned that CEFIA would like to transfer several technology innovation programs to CI. There are four projects in the CEFIA Alpha Program portfolio and four projects in the CEFIA Operational Demonstration Program portfolio. Ms. Leonardi mentioned that some of these very early stage projects could be pipeline investments for CI. She mentioned that CI staff is working with CEFIA staff on a Memorandum of Understanding that outlines the details of CI's administration of the projects/programs. Ms. Leonardi explained that there are some program differences that may require the hiring of some technical consultants. She noted that the costs for the hiring of consultants will be worked out with CEFIA. Catherine Smith questioned whether CEFIA staff or consultants will be providing the technical expertise. Ms. Leonardi will discuss this issue with CEFIA.

5. Budget Presentation:

Ms. Leonardi provided an overview of the proposal fiscal year 2013 budget. She summarized that total operating expenditures for 2013 are proposed to be approximately \$8,200,000 compared with approximately \$6,500,000 in 2012 which is an increase of approximately 26 percent. Ms. Leonardi indicated that the increase is attributed to having a full year of the implementation of the new programs, an increase in personnel and the investment in systems. The CI deployment plan budget for fiscal year 2013 is \$35,000,000. Ms. Leonardi stated that CI is now investing more in programs as well as administering programs. She noted that CI does not get compensated for administering some of the programs. Staff was asked determine the "real value" and costs for the programs CI administers. The Board noted the importance of getting to a staff level that can manage the deployment of \$25,000,000 a year. Mr. Longo stated that in addition to the deployment, staff has to manage its existing portfolio. There was general consensus that CI cannot manage its assets based on industry standards because of the nature of CI's portfolio. The Board indicated the desire to expand and grow the portfolio, but directed staff to be prudent with its decisions and spending.

Ms. Leonardi reiterated that the 2012 fiscal year was focused on hiring the investment staff, and the 2013 fiscal year will be focused on the administrative staff. She mentioned that the 2013 budget includes funding for 2.5 additional staff and a pool of funds to adjust salaries if necessary following the completion of the benchmarking study.

Ms. Leonardi discussed the specifics of the proposed investment in the CI portfolio companies and programs. She mentioned that CI proposes to invest \$5,825,000 in SBIR programs, \$4,200,000 in the Innovation EcoSystem and \$35,000,000 in other CI programs and equity and debt investments for a total of \$45,025,000. Catherine Smith indicated that the Finance Committee had a lengthy discussion on how much CI can afford to deploy in fiscal year 2013 while considering the appropriate cash necessary to have on hand in the event of the CI/CDA merger. Ms. Leonardi stated that with the proposed budget, the cash on hand as of June 30, 2013 will be approximately \$23,000,000, and the assets will grow from approximately \$90,000,000 to approximately \$155,000,000. A discussion ensued on the annual bond funds from the state and the need to focus on the deployment of \$25,000,000 in future years. The Board discussed the projected funds needed for follow-on investments. Staff was asked to put together a plan on new investments, follow-on investments, and managing cash flows for the next several years. Ms. Leonardi mentioned that CI is looking for alternative sources of funding and is having discussions with the Treasurer's office about creating a side by side fund for CI. Staff was asked whether there is a formal process or review for planned equity take outs. A suggestion was made to have staff review divestments similar to its review for investments.

Staff noted the importance of having a continued and predictable stream of funding for companies. The Board asked whether there was a way to determine the risks and/or likelihood of success for the portfolio companies. Staff indicated that because of the varied types of companies in CI's existing portfolio, it may be difficult to make a comparison and evaluate the risks. Ms. Leonardi indicated that staff can provide information based on the companies in each specific industry.

Mr. Longo spoke about the growth in assets. He noted that a significant part of the growth is attributed to the preseed companies. Mr. Longo stated that it is expected that CI's portfolio will continue to grow, which will continue to require human resources from CI.

Mr. Moret discussed the Preseed Program portfolio. CI currently has almost thirty preseed portfolio companies which require ongoing monitoring and assistance. He explained how the Innovation Ecosystem could help to enhance the pool of applicants and increase the quality of candidates for TechStart and Preseed Programs. Mr. Moret indicated that CI will be working closely with the Innovation Ecosystem partners "Hubs" to coordinate expanding the TechStart Fund and Accelerator Program.

Ms. Leonardi discussed the proposed budget for the SBIR programs, noting that it reflects CI's broadened efforts. She spoke about some of the Small Business Innovation programs. Staff was asked to confirm that there are no overlaps with the programs (no other agencies are doing the same work) and that there is collaboration where possible. Staff was also asked whether there is a better way

to communicate information to faculty at the universities and to other stakeholders. Ms. Leonardi noted that CI is looking at ways to improve communication and marketing of its programs.

Ms. Hartley discussed the proposed marketing and external relations strategy for fiscal year 2013. She reiterated the need to increase awareness of the full breadth and scope of CI's programs. In the marketing efforts, the Board noted the importance of focusing on innovation by CI. Staff was asked to ensure that the CI-sponsored activities draw in new investment prospects and entrepreneurs. Staff is working to develop a more comprehensive marketing strategy.

Mr. Casparino reviewed the proposed budget for information technologies. He spoke about virtualizing servers, the conversion of the disaster recovery system, upgrading hardware and software systems, upgrading the Internet bandwidth and security systems and installing Microsoft SharePoint Foundation, which involves the hiring an outside consultant and some training services. He noted that CI's information technology staff provides support for CI, CEFIA, the SBIR office and CTech applications. Staff was asked to explore the use of portable devices for the Board/Committee.

Mr. Bellas discussed projected revenues/cash flows for fiscal year 2013. After discussion of projected proceeds from CI portfolio company exits, staff increased the amount from \$2,000,000 to \$5,000,000. Some concern was expressed with over investing next year and not having sufficient funding for future years. Ms. Leonardi suggested that staff come back with an investment plan and more succinct exit plan. She noted that the proposed budget is preliminary and will be revised in combination with CDA should the merger come to fruition.

In response to a question about the increase for rent, utilities and maintenance, Mr. Bellas explained that the lease amount for fiscal year 2013 is in accordance with the existing lease agreement and includes the amount for expanding into 3,000 additional square feet. He noted that when the lease was negotiated, the square foot price for CI's current space was less than the amount CI was paying at that time.

The Board asked for the budget to actual comparison and comparison information with fiscal year 2012. Mr. Bellas mentioned that the budget to actual comparison was e-mailed to the Board and that he will be working on presenting information in a different manner.

Upon a motion made by Mr. Harris, seconded by Mr. Choi, the Board voted unanimously in favor of approving the CI Operating Budget for fiscal year 2013 (which authorizes staff to spend approximately \$45,000,000 on programs).

Staff will report back with a plan for the next several years on the appropriate amount to spend on new investments, follow-on investments, and cash on hand.

Mr. Bellas discussed the budget for the BioScience Collaborative Program. He noted that in accordance with legislation, after the CI Board accepts the budget, a copy of the budget will be provided to the Governor, the Secretary of the Office of Policy and Management, and the Joint Standing Committees of the General Assembly having cognizance over the matter.

Upon a motion made by Mr. Schiele, seconded by Mr. Choi, the Board voted unanimously in favor of authorizing the President – Executive Director to forwarding the BioScience Collaborative Program Budget for fiscal year 2013 to the appropriate agencies as required by legislation.

6. SBIR Sole Source Contract Extensions:

Ms. Leonardi noted that in accordance with CI's Procedures, whenever possible, CI should not expend more than \$75,000 in a fiscal year without soliciting bids. She explained staff's recommendation to amend the contracts for SBIR consulting services because the services are expected to exceed \$75,000 for fiscal year 2012. She noted that neither will exceed a total of \$90,000 for the fiscal year.

Upon a motion made by Mr. George, seconded by Mr. Schiele, the Board voted unanimously in favor of adopting the following resolutions authorizing amendments to contracts with Christine Gemelli and Battelle.

NOW, THEREFORE, BE IT RESOLVED:

That the President – Executive Director of Connecticut Innovations ("CI") is authorized to amend Connecticut Innovation's contract with Christine Gemelli to increase the dollar amount to be paid by CI under the contract from \$75,000 to \$90,000 for services rendered up through and ending on June 30, 2012, consistent with the attached Scope of Work, due to an unanticipated increase in scope for one of the projects issuing Request for Proposals for such services.

WHEREAS, Public Act No. 11-1 of the October Special Session provides an unprecedented opportunity to accelerate job growth among small businesses; and

WHEREAS, CI supports the growth of technology-based businesses and technology innovation in the state; and

WHEREAS, P.A. 11-1 provides a new level of funding to engage new and stronger partnerships between businesses and universities; and

WHEREAS, we have a limited opportunity to build these relationships and see results; and

WHEREAS, CI has identified a need for the engagement of services of a consultant to assist the CT Small Business Innovation Office in carrying out its new initiatives, as well as its ongoing responsibilities.

NOW, THEREFORE, BE IT RESOLVED:

That the President – Executive Director of Connecticut Innovations (“CI”) is authorized to engage a consultant for the purposes set forth in the foregoing recitals and that given the immediacy of the need for such services such consulting agreement may be awarded on a “sole source” basis notwithstanding that the cost for such consulting services may exceed seventy-five thousand dollars (\$75,000).

7. Executive Session:

Ms. Smith asked the Board to consider going into executive session to discuss a personnel matter.

Upon a motion made by Mr. Esty, seconded by Mr. Choi, the Board voted unanimously in favor of going into executive session at 11:27 a.m. to discuss a personnel matter.

Ms. Leonardi was invited to remain during the executive session. The executive session ended at 11:45 a.m., and the regular meeting was immediately reconvened.

8. **Adjournment:** Upon a motion made by Mr. Esty, seconded by Mr. Choi, the Board voted unanimously in favor of adjourning the May 31, 2012 meeting at 11:46 a.m.

Respectfully submitted,

Catherine Smith
Chairperson of CI