

**BOARD OF DIRECTORS**  
of Connecticut Innovations, Incorporated  
Minutes – Regular Meeting  
Monday, July 23, 2012

A regular meeting of the **Board of Directors of Connecticut Innovations, Incorporated** (the “Board”) was held on July 23, 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: Mun Choi; Daniel Esty, Commissioner of the Department of Energy and Environmental Protection; Alan Greene; John Olsen; Paul Pescatello; Rafael Santiago; Christine Shaw, representing Denise Nappier, State Treasurer; and Catherine Smith, Chairperson of CI and Commissioner of the Department of Economic and Community Development.

Absent: Karen Buffkin representative for the Office of Policy and Management; Lou George; Robert Kennedy, Board of Regents of Higher Education; Stephen Nocera; and George Schiele.

Staff Attending: George Bellas, P. Joseph Harpie, Claire Leonardi, Karin Lawrence, John Lobon, Peter Longo, Shelly Mondo, Charlie Moret, Antonio Roberto, Philip Siuta, Daniel Wagner, Linda Wieleba, and Dave Wurzer.

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

Ms. Smith introduced Christine Shaw who is a designee of the Treasurer’s office, as a member of the CI Board. Attorney Murphy administered the oath of office to Ms. Shaw.

**2. Approval of Minutes:**

Catherine Smith asked the Board members to consider the minutes from the May 31, 2012 and June 25, 2012 meetings. The minutes from the June 25, 2012 meeting will be corrected to indicate that Mr. Esty was present.

**Upon a motion made by Mr. Greene, seconded by Mr. Pescatello, the Board members voted in favor of adopting the minutes from the May 31, 2012 and June 25, 2012 meetings (Mr. Shaw abstained from the vote).**

**3. Committee Reports:**

*Audit, Compliance and Governance Committee (“Audit Committee”)*—Mr. Pescatello provided the Audit Committee report. He mentioned that the Audit Committee met on Monday, June 4, and discussed the audit plan for the fiscal year 2012 audit with Marcum LLP, CI’s independent auditor. The Audit Committee also met on July 16 and

discussed the preliminary audit performed by the Auditors of Public Accounts for fiscal year 2011. Mr. Bellas read the audit finding prepared by the Auditors of Public Accounts relating to statutory required filings with various executive and legislative branch entities. He stated that several reports were not filed on time and one report was not not filed with a required entity.. Mr. Bellas indicated that a response has been drafted stating that responsibility for filing the reports on a timely basis has been assigned to a senior member of CI's staff. He noted that other than this issue, there were no significant findings in the audit.

Mr. Pescatello mentioned that the Audit Committee reviewed CI's Investment Portfolio Valuation for fiscal year 2012 and voted to accept the Valuation as presented and to forward the report to the Board for consideration. Mr. Bellas explained that each year CI's staff determines the valuation of its portfolio companies using the established Investment Portfolio Valuation Procedures. He mentioned that Marcum, CI's independent auditors, attended the Valuation Committee meeting. In response to a question, Mr. Bellas stated that Marcum did not have any questions or make any comments about the valuation process. He noted that Marcum audits the process but does not accept the valuation.

A question arose regarding the critical assumptions used to determine the valuations. Mr. Longo explained several of the critical assumptions used to determine the valuations, including: 1) cash on hand, revenues and expenses for 12 months; 2) any transactions that may occur subsequent to year end but before the issuance of the financial statements; and 3) comparative values relative to the market. Mr. Bellas explained how various transactions affect the determination of valuations. Questions arose regarding strategies for dispositions. Ms. Smith noted that staff is working on developing criteria and a transparent strategy for handling exits and dispositions. Mr. Longo discussed the background of the four independent Valuation Committee members which include Katherine Vick, Chairperson, Jim Jordan, Raghav Nandagopal and Frank Morse.

In response to a question, it was noted that the valuation process is very conservative. Ms. Leonardi mentioned that since the Preseed Program is unique and CI does not have experience with the success of the loans, a 75 percent discount was taken on the entire program.

While discussing the Valuation Report, the following suggestions were made: 1) benchmark CI's portfolio against other public investment funds; 2) track the total returns to investments and determine total returns over the life of the investment; 3) track different funds separately (track investments made before current team and compare the two); 4) compare CI with the private venture capital industry and 5) provide return information as a percentage versus absolute terms. While noting that there is not a significant difference with the way things are being done, Ms. Leonardi noted the importance of communicating more with the Board and tightening existing policies and procedures.

**Upon a motion made by Mr. Pescatello, seconded by Mr. Choi, the Board members voted unanimously in favor of accepting the recommendation of the Audit Committee and Valuation Committee to accept the fiscal year 2012 CI Investment Portfolio Valuations.**

*Eli Whitney Investment Committee (“Investment Committee”)*—Mr. Longo mentioned that an analysis of the dispositions for fiscal year 2012 was provided to the Board. The chart includes the original cost, the cash received through fiscal year 2011, the cash received in fiscal year 2012 and the remaining value in the portfolio. Staff was asked to add two additional columns to the chart—1) net and 2) internal rate of return. In response to a question raised earlier, Mr. Longo indicated that since 1995, CI has been tracking the internal rate of return by investment. Mr. Longo mentioned that the pipeline has slowed down a little, which is typical for the season. However, next month staff expects to present a number of deals to the Eli Advisory and Investment Committees for consideration. In response to a question about the deal team staffing, Mr. Longo indicated that there has been one resignation and two existing staff members have been promoted. Mr. Wagner has been promoted to Managing Director of Investments and Mr. O’Neill has been promoted to Director of Investments.

#### **4. Chief Executive Officer and Executive Director Report:**

Ms. Leonardi highlighted some of CI’s accomplishments in fiscal year 2012. She mentioned that an employee recognition program has been instituted and each quarter five employees will be recognized for their outstanding contributions to the mission of CI. The following employees were recognized for their efforts during the transition of CEFIA becoming a separate entity—Suzanne Kaswan, Stephenie Harpin, Julie Radar, Pamela Hartley, Sara Donofrio, Joe Casparino and Kimberly Peretto.

Ms. Leonardi stated that pending a final interview, the firm of Buck Consultants from Boston has been selected to help with the salary benchmark study. The study will help ensure consistent compensation for all staff (CI, CEFIA and CDA). Ms. Leonardi noted that the firm has experience with mergers, quasi-public agencies and state agencies.

Staff was asked to look at all CI’s programs to determine whether CI is doing what it should to meet the needs of the community. Any changes to either add or eliminate programs should be brought to the Board.

Ms. Leonardi discussed the value of the Preseed Program but noted that staff is considering ways to successfully sustain the program without requiring so much staff time and without compromising the mentoring and assistance needed by the companies to succeed.

**5. Update on CI/CDA Merger:**

Ms. Leonardi mentioned that Mr. Siuta has been selected to serve as Chief Financial Officer of CI and will organize the financial staff. She mentioned that it may be necessary to rent additional space in an adjacent property because it is not likely that everyone will fit in the existing building. Ms. Leonardi mentioned that staff is working collaboratively on communication issues and strategies. She noted that with the merger, there is an excellent complement of all staff who has been working well together.

**6. Jackson Lab Update:**

Mr. Siuta provided an update on Jackson Laboratory. He indicated that everything is moving forward as scheduled. Approximately \$7,700,000 of funding has been released to date, a majority of which is for the temporary facility. Mr. Siuta stated that the next step is to approve the final plans. Diversified Project Management, the lender's construction representative, will be reviewing the plans in detail. It is anticipated that the final plans will be presented to the Board in November for consideration.

**7. Innovation Ecosystem Contract Approval:**

Ms. Leonardi mentioned that this agenda item is not ready for approval and noted that there may be a need for a special meeting in approximately three weeks to consider this item.

**Upon a motion made by Mr. Greene, seconded by Mr. Choi, the Board voted unanimously in favor of tabling the consideration of the Innovation Ecosystem Contract.**

**8. CI—Year in Review:**

Ms. Leonardi reported that CI's goals for the year were exceeded, noting that it was a record year for new investments and programs. She stated that CI successfully implemented its aggressive deployment plan. Ms. Leonardi highlighted some of the other important activities that occurred during the 2012 fiscal year, including the transition of CEFIA to an independent entity, the integration and training of new employees, the merger with CDA, Jackson Labs, and the Innovation Ecosystem.

Mr. Longo highlighted some of the financial goals for the year. He stated that CI's financial goals for fiscal year 2012 were to invest \$25,000,000 in new and existing companies (\$20,000,000 for the deal team, \$2,000,000 in the Preseed Program, \$2,000,000 for SBIR and \$1,000,000 for other investments). Mr. Longo noted that the Eli Investment Committee approved \$26,600,000 of investments in fiscal year 2012 versus \$13,100,000 in fiscal year 2011. In fiscal year 2012, CI invested \$23,800,000 in 32 companies and \$2,800,000 in 18 pre-seed companies. To date, \$24,500,000 of investments has been closed versus \$9,500,000 in fiscal year 2011. Mr. Longo

emphasized that CI's funds have resulted in the leverage of approximately \$56,000,000 of additional capital. Ms. Leonardi recognized and thanked the Eli Advisory and Investment committees for their extraordinary work with reviewing and considering the record number of proposals in fiscal year 2012. It was noted that several new programs were launched this year. Under the Loan Program, the goal was to complete two deals, and CI approved three deals totaling \$2,500,000 in investments. Under the Next Five Program, the goal was to relocate at least two companies to Connecticut and invest \$4,000,000 in the companies. CI relocated six companies and invested \$4,750,000 in those companies.

Mr. Longo discussed the historical perspective of dollars invested by CI from 1989 through 2012. He noted that in 2012 CI invested more funds in companies than ever. It was explained that the drop off of investments from 2003 through 2006 were as a result of the State taking cash from CI and CI having to build its funds back up.

Mr. Moret spoke about the new TechStart Program. He noted that the pilot program was launched in January to help fill a financing gap and startup assistance for entrepreneurs. CI received 80 applications, and 39 applicants qualified for an in-depth review. Mr. Moret mentioned that 9 teams were selected to participate in the pilot program. The 10-week accelerator program began on March 5 and concluded with presentations to more than 30 potential investors on May 18. The next session will begin September 17.

Ms. Leonardi discussed performance measurements for CI. CI has invested over \$100,000,000 since its inception in 1995. Over the last 20 years, the gross internal rate of return through fiscal year 2012 is 18.33 percent. In an effort to assess and compare CI's performance with private sector venture capitals, Ms. Leonardi explained that staff created a model. She discussed the results and track record of the internal rate of return over certain periods of time. The Board noted that CI's success should not necessarily be measured by the internal rate of return because its mission is broader and includes other factors (i.e. job creation and new business startups). Ms. Leonardi stated that having this information can be useful for bringing in other capital. A discussion ensued on expenses compared with the benchmark. In response to a question, Ms. Leonardi stated that CI administers several programs that are not income producing and can eventually be looked at as separate businesses.

Ms. Santy highlighted some of the successes with the SBIR Programs. She mentioned that partial 2011 data shows growth in the Connecticut market share. Ms. Santy stated that Connecticut is tracking at 3.3 percent of U.S. Phase 1 projects versus 2 percent over the prior 5 years. She noted some of the larger companies participating in the 2012 SBIR and Global Trade Summit. It is anticipated that there will be approximately 450 attendees at the event. Ms. Santy discussed the Small Business Innovation and Diversification Program ("SBIDP") and Federal State Technology Partnership ("FAST"). A grant of \$152,000 was awarded by the SBA to provide events and training sessions for women, veterans and minority-owned small businesses. Under the SBIDP, \$565,000 in grants lead to \$2,500,000 in company matches. Ms. Santy indicated that

23 manufacturers developed innovative technologies or diversified their markets, and UCONN scholars were available to all of the companies. She discussed the SBI matching and support. Ms. Santy stated that programs continue to be created to fill gaps. She reviewed the new grant programs for 2012. She stated that \$1,000,000 was set aside for grants, and to date approximately \$465,000 has been committed. Ms. Santy noted that \$2,000,000 was provided for loans, and \$450,000 has been committed to date. Since May, approximately \$200,000 has been committed for the Technology Talent Bridge. Ms. Santy stated that so far \$193,000 has been awarded to 10 companies for 16 interns from 6 Connecticut universities for internships. In response to a question about the loans and grants, Ms. Santy stated that staff anticipates requesting an amendment to the program at the next Board meeting to provide more flexibility and allow either a loan and/or a grant. Given the complexities with administering the loans, the Board questioned why the loans are being offered. Ms. Santy stated that staff would like to have the flexibility to offer both.

Ms. Santy discussed the new SBI—CtiHub.com. She noted that the visits to the site continue to increase. Ms. Santy talked about the SBI—Talent Pipeline STEM and some of the events going on both nationally and locally. Ms. Smith noted that there will be a “Manufacturing” month in October. A suggestion was made to contact the guidance counselors at the high schools and/or the State Board of Education about these types of activities.

#### **9. Historic Function of the Connecticut Development:**

Mr. Roberto spoke about the Connecticut Development Authority (“CDA”), noting that CDA was created in 1973. He indicated that CDA was created to provide debt financing and investment capital to help businesses grow in Connecticut. In summary, Mr. Roberto indicated that CDA provided direct, guaranteed or participating loans not provided or otherwise available. He described some of the credit enhancement programs, including loan guarantees; CAPEX line-of-credit to term loans; junior participating loans; direct loans; URBNK loan guarantees primarily for small, minority and women-owned businesses; financial incentives for technology intensive projects; financial incentives for brownfield redevelopment; direct, senior or mezzanine loans; industrial revenue bonds; sales tax relief for the construction of major projects and sales and admission tax incremental financing. Mr. Roberto discussed some of benefits of each of the programs. It was noted that the merger between CI and CDA will help expand the tools available to assist companies. The Board encouraged CI to work closely with CEFIA staff on a regular basis to coordinate programs and ensure that there is no overlap.

Mr. Harpie provided an overview of the typical CDA customer profile, noting that a majority consists of “precision component manufacturers.” Between July 1, 2008 and June 30, 2012, CDA approved \$185,000,000 of which \$170,000,000 was used to provide liquidity to manufacturing operations.

***URBANK Activity Report:***

Mr. Lobon discussed the URBANK loan guarantees which were established in 1993. The program was developed to help banks meet the financing needs of more small and entrepreneurial businesses. URBANK provides banks with loss protection on loans up to \$500,000. Mr. Lobon explained that the average loan under the program is approximately \$85,000, and CDA has loaned approximately \$56,000,000 since the inception of the program, 1/3 of which was provided to minority and women owned firms and approximately 1/2 within major urban centers. He noted the possibility of needing legislative changes in the future to modify the program.

**10. Items for Action Administration:****Connecticut Works Guarantee Fund:**

Mr. Harpie summarized the request to provide up to \$400,000 of funding for the Pa-Ted Spring Company located in Bristol under the Connecticut Works Guarantee Fund. The company produces customized metal springs, wire formed products and small precision metal stampings used as components of assemblies and sub-assemblies. The company has been able to retain 16 full-time equivalent jobs. Mr. Harpie discussed the proposed terms and conditions of the loan. Ms. Smith noted that eventually a loan committee will be established to review loans and guarantees, and the loan committee will be asked to review the risk ratings and underwriting processes. In response to a question, it was noted that the CDA staff performs due diligence to ensure that the companies are in good standing.

**Upon a motion made by Mr. Greene, seconded by Mr. Santiago, Connecticut Innovations, Incorporated (“CI”) at a duly called meeting held on July 23, 2012, a quorum being present, voted to approve a 12 percent first-loss guarantee to People’s United Bank (“LENDER”) from the Connecticut Works Guarantee Fund existing under Section 32-261 of the Connecticut General Statutes, as amended. Said loan guarantee shall be for the purpose of recapitalization, in an amount not to exceed \$400,000, and for a term not to exceed 10 years, for the benefit of Pa-Ted Company, with the terms and conditions recommended by staff. Such approval is also subject to the general terms and conditions of the existing Master Guarantee Agreement, as amended, between CI and the LENDER.**

**Connecticut Sales and Use Tax Relief Program:**

Ms. Lawrence discussed the request to approve sales tax relief for the purchase of capital equipment and materials for the benefit of Dollar Tree Distribution Inc. Dollar Tree Inc. operates discount variety stores throughout the United States and Canada and has sales of approximately \$6,000,000,000. The company is requesting a sales tax

exemption of up to \$4,000,000 over a period of up to three years to help alleviate some of the higher costs associated with the construction and operation of a new distribution facility in Connecticut will which create approximately 200 new jobs.

**Upon a motion made by Mr. Choi, seconded by Mr. Pescatello, Connecticut Innovations, Incorporated (“CI”) at a duly called meeting held on July 23, 2012, a quorum being present, voted unanimously in favor of approving sales tax relief under Section 32-261 of the Connecticut General Statutes, as amended on the purchase of capital equipment and materials, for the benefit of Dollar Tree Distribution, Inc. Said tax exemption shall not exceed \$4,000,000 over a period not to exceed 3 years, and will be subject to the terms and conditions recommended by staff.**

**11. Executive Session:**

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

**Upon a motion made by Mr. Choi, seconded by Mr. Pescatello, the Board voted unanimously in favor of going into executive session at 11:48 a.m. to discuss a personnel matter.**

Ms. Leonardi was invited to remain during the executive session. The executive session ended at 12:07 p.m., and the regular meeting was immediately reconvened.

**Upon a motion made by Mr. Choi, seconded by Mr. Olsen, the Board voted unanimously in favor of accepting the severance package discussed in executive session for Marie O’Brien.**

**12. Adjournment:** Upon a motion made by Mr. Esty, seconded by Mr. Choi, the Board voted unanimously in favor of adjourning the July 23, 2012 meeting at 12:09 p.m.

Respectfully submitted,

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Catherine Smith  
Chairperson of CI