

1 **VIRGINIA TOBACCO INDEMNIFICATION**
2 **AND COMMUNITY REVITALIZATION COMMISSION**

3 701 East Franklin Street, Suite 501
4 Richmond, Virginia 23219

5
6
7
8
9 **Research and Development Committee Meeting**

10 Wednesday, December 14, 2011

11 10:30 o'clock a.m.

12
13
14
15 The Hotel Roanoke & Conference Center
16 Roanoke, Virginia

17
18
19
20
21
22
23
24
25

 CRANE-SNEAD & ASSOCIATES, INC.
 4914 Fitzhugh Avenue, Suite 203
 Richmond, Virginia 23230
 Tel. No. (804) 355-4335
 Fax No. (804) 355-7922

1 APPEARANCES:

2

3 The Honorable Kathy J. Byron, Chairman

4 The Honorable Daniel W. Marshall, III, Vice Chairman

5 Ms. Mary Rae Carter, Deputy Director

6 Department of Commerce and Trade

7 Mr. Burgess Butch H. Hamlett, III

8 Ms. Sandra F. Moss

9 Ms. Connie Greene Nyholm

10 The Honorable Edward Owens

11 The Honorable Phillip P. Puckett

12 Mr. Kenneth O. Reynolds

13 The Honorable Frank M. Ruff

14 Ms. Cindy M. Thomas

15

16

17

18 COMMISSION STAFF:

19 Mr. Neal Noyes, Executive Director

20 Mr. Ned Stephenson, Deputy Executive Director

21 Mr. Timothy S. Pfohl, Grants Program Administration Manager

22 Ms. Stephanie S. Kim, Budget Director

23 Ms. Sara G. Williams, Grants Coordinator - Southwest, Virginia

24 Ms. Sarah K. Capps, Grants Coordinator - Southside, Virginia

25

1 December 14, 2011

2

3 DELEGATE BYRON: Good morning, everyone. Thank
4 you for coming.

5 Neal, would you call the roll.

6 MR. NOYES: Delegate Byron.

7 DELEGATE BYRON: Here.

8 MR. NOYES: Ms. Carter.

9 DEPUTY SECRETARY CARTER: Here.

10 MR. NOYES: Mr. Hamlett.

11 MR HAMLETT: Here.

12 MR. NOYES: Delegate Marshall.

13 DELEGATE MARSHALL: Here.

14 MR. NOYES: Ms. Moss.

15 MS. MOSS: Here.

16 MR. NOYES: Delegate Marshall.

17 DELEGATE MARSHALL: Here.

18 MR. NOYES: Ms. Nyholm.

19 MS. NYHOLM: Here.

20 MR. NOYES: Mr. Owens.

21 MR. OWENS: Here.

22 MR. NOYES: Senator Puckett.

23 SENATOR PUCKETT: Here.

24 MR. NOYES: Mr. Reynolds

25 MR. REYNOLDS: Here.

1 MR. NOYES: Senator Ruff.

2 SENATOR RUFF: Here.

3 MR. NOYES: Ms. Thomas.

4 MS. THOMAS: Here.

5 MR. NOYES: Senator Wampler is not here.

6 You have a quorum, Madam Chairman.

7 DELEGATE BYRON: We have the minutes from
8 September 29th, 2011, which are published on the website. Do I
9 have a motion to approve the minutes of 9-29-11?

10 MR. OWENS: So moved.

11 DELEGATE BYRON: We have a motion and a second
12 to approve the minutes. All in favor, say aye? (Ayes). Opposed,
13 no? (No response). The minutes are approved.

14 Now, we had an R & D meeting that created a broad
15 discussion about the application process, the scoring process,
16 and other issues that we discussed there and that we need to
17 discuss, and we want to confirm that and so the applicants
18 appeared and we want to move forward. I think our staff had an
19 understanding of what effect from that was.

20 I think the proper way to do this is review some of the
21 discussions. If we can, I'd like to see if we can come to an
22 agreement on the ones that really stand out and are easy and
23 get them out of the way so we can feel some accomplishment
24 and maybe have a discussion on some of the things that weren't
25 and we need further discussion on, and then, of course, some

1 new ideas that you have thought about since our last meeting.

2 In front of you today is a copy of the scoring, and that
3 may be one that will warrant further discussion. We can
4 determine that. This was discussed at great length at the last
5 meeting, changing the factor to 70-30 weighting with a business
6 plan included. I'm trying to think of what else we heard to
7 change.

8 I think the most notable one was the business plan.
9 Is there any discussion on 70-30?

10 DELEGATE MARSHALL: The business plan, and I'd like
11 to talk a little bit about, do we want to have a template for the
12 business plan? I understood that if we don't have something like
13 that, we don't have business plans that are just all over, just like
14 we have a certain application for all of the committees for people
15 that apply for money. The reason I assume, I think we did that
16 before I got here. We can kind of direct these things. It makes
17 it a lot easier for the staff.

18 My only thought is that if we don't have something
19 that is a template for a business plan, and I don't know if we're
20 going to end up with good information while what's going on or
21 it's going to be too much for the staff. I would assume we could
22 probably find a template from one of the business schools.

23 MR. NOYES: Madam Chair, the staff has requested
24 from those applicants who will be considered in January that
25 there be a business plan.

1 Ned, we've got a date on the 4th when they're due, is
2 that correct?

3 MR. STEPHENSON: That's correct.

4 MR. NOYES: So we'll know something about
5 Delegate Marshall's concerns about whether this is justified in
6 putting together a template, and I think that's simply a matter of
7 going to one of the better business schools and say what should
8 we be looking for and having these categories and then requiring
9 that they be addressed, then scoring, what goes in those
10 categories, that's something that's a little more difficult. The
11 question is it good information or bad information just because
12 it's there?

13 I really think members of this committee need to see
14 the business plan comes in and whether there is a template that
15 informs the order that the information is presented or not. It
16 needs to be part of the application that we send out and a
17 standard basis for your review.

18 MS. CARTER: I never actually looked at a business
19 plan, ever seen a business plan, but I'd like to ask some
20 questions that may be appropriate about a business plan. When
21 we have each one of these criteria, would that be in the
22 template?

23 DELEGATE BYRON: I would say first of all, as far as
24 the business plan, I recently looked at one at the state office,
25 what department it was, one of the business plans of the agency,

1 what I was looking at or what I was looking for, but that's part of
2 the problem. I don't know if it would be better to go to the
3 Darden School or some of those and have a template. If it's not
4 a template, then perhaps a recap of the questions or something
5 that go along with the business plan to cover saying that those
6 things need to be addressed. I can agree and appreciate with
7 what Delegate Marshall was saying regarding having one. I think
8 that it's wise to put something out there; otherwise, we may not
9 get the answers back. I think the partnership is used to rating
10 and looking at business plans and that's part of what they do, to
11 have effective customers of the Commonwealth.

12 MS. CARTER: I guess if we get it, we would ask them
13 to put somewhere in the business plan what are you saying as
14 far as development, what are your credentials, is that how it
15 works if we did a template?

16 DELEGATE MARSHALL: The business plan would
17 answer those things. The business plan is a lot about marketing
18 and your financial situation. A lot of other things go into a
19 business plan.

20 MR. NOYES: Competition, resources, not so much
21 credentials. We have it as part of the application process.

22 DELEGATE BYRON: The partnership may even score
23 with them part of their venting process. I'm certain they have
24 questions for the applicant to address and things they felt or
25 address in the application. They can go back and request further

1 information.

2 MR. NOYES: I'd just like to point out that after the
3 last meeting we asked VEDP to modify the process by adding a
4 venture capitalist, scoring the business plan, VEDP declined to do
5 those two things.

6 At this point, this is back in our lap as far as how we
7 need to proceed. They did not believe they could get the VC to
8 focus the length of time that it would be required to have that
9 type of input in the individual applications. They couldn't give
10 the amount of time that the university said that and that the
11 other people currently serve on the panel. I raised this question
12 with Secretary Cheng and he said that he thought probably there
13 were plenty of VCs that would be willing to review applications
14 and weigh in. It might be outside VEDP's process. Secretary
15 Cheng thought we might be able to make arrangements to have
16 some VC input.

17 On the business plan, I don't know why they said they
18 didn't want to score now as part of the process. What VEDP
19 does, it's a situation where people are assigned numeric values
20 based on how they think folks do on each of the ten questions.
21 Then those are aggregated and you simply get the mathematical
22 means. That's the numbers that you see. At no point does VEDP
23 take those facts. What you said in our last meeting, VEDP will
24 assign the weights that this committee agrees on, 15 percent for
25 that, and 10 percent for that, and whatever they are. And that's

1 easy, and we're happy to do that once we have the scoring.

2 VEDP is not going to weight them. They don't want to
3 get into the weighting. The staff would do the weighting piece.

4 Ned, am I right about that?

5 MR STEPHENSON: Yes. It's a mathematical choice
6 easily done.

7 DELEGATE BYRON: Butch, would you refresh our
8 memory on the last discussion we had about the Darden School?

9 MR. HAMLETT: I'll be glad to. The Darden School is
10 more of a graduate business school going to the method of
11 teaching. Traditionally and historically, graduate business
12 schools will teach out of a textbook, and there is this relatively
13 new concept started by the Harvard Business School where they
14 go through more case study analysis.

15 In the analysis of a particular case study, you get into
16 the details of the operation, the marketing, the finances, and the
17 type of analysis and all this sort of thing, but not in a traditional
18 way of doing it in a book. It's more a real world where you have
19 a scenario where this is the company and this is the history of
20 the company, here are their plans, now you analyze what you
21 graduate business school students would suggest as a plan of
22 attack. Also, how would you analyze it and here's the situation.
23 It ends up being more real world and it seems like such a natural
24 here.

25 I'm a graduate of the business school at Duke, and we

1 had sort of a hybrid model with some traditional textbook
2 learning and then some case study learning. Many business
3 schools use the Harvard Business School's case studies because
4 they have thousands of them. The professor would order up 10
5 or 20 of them, and over the course of a semester or a year, you
6 might do five or ten or more case studies. It's more of a real
7 world scenario rather than a traditional textbook concept.

8 DELEGATE BYRON: Where you've seen those types of
9 studies, is that equally beneficial to start up companies to mature
10 companies doing business and all the different types of things we
11 look at?

12 MR. HAMLETT: Absolutely. Any scenario over the
13 timeline of a business no matter where they are in their infancy
14 or more mature companies, it is all applicable. You can analyze a
15 particular business plan and case study regardless of where it is
16 in its life cycle.

17 MS. BYRON: That's the way I remember the
18 presentation, and maybe we should move in that direction. I
19 don't know whether venture capitalist, that could be a good step
20 or Darden. Probably will give us a lot more information than an
21 independent thought than commercialization.

22 DELEGATE MARSHALL: How do you see this playing
23 out? Do we use this in lieu of the partnership to view
24 applications or in addition to it?

25 MR. HAMLETT: First of all, I'm curious, Neal, did the

1 partnership, they obviously had, they had an opportunity to see
2 several pieces or what we had suggested. Was the piece about a
3 formal business plan being part of what they analyzed, did they
4 have any problem with that?

5 MR. NOYES: I don't think so. I think the issue was
6 scoring because VEDP doesn't want to be, they don't want to pick
7 winners or losers. They want this group to pick them. When you
8 start scoring somebody, assigning weights in different things.
9 They can evaluate these things and come up with a mathematical
10 means. How this committee decides to weight that number, it's
11 where the nervousness was.

12 The VC is a logistics thing. You can't get a VC to sit
13 still long enough to go through a series of meetings and do all
14 sorts of things. They have no skin in the game.

15 MR. HAMLETT: I can understand and appreciate that.
16 They're looking for deals all the time and that's what they do all
17 day long every day. My comment would be that logistically in
18 dealing somehow incorporating that into the VEDP process is
19 fine. It's fine if they're not willing or don't feel like they don't
20 want to do it because of logistics or they can't handle it. And we
21 should be able to handle that ourselves.

22 To answer Delegate Marshall's question, one way I
23 could see it working is that we have VEDP venting something
24 separate and more than likely something we'd have to pay for.
25 There are cost considerations here which will have to be part of

1 this analysis, but we're willing to pay for another look or a deeper
2 look or look at the commercial viability rather than the science.

3 It sounds like that grouping, and I don't have a full
4 understanding that group that the VEDP puts together to do this
5 analysis, but it sounds like to me they're putting a lot of
6 emphasis on the science and not so much on the business piece
7 or the commercial piece.

8 MR. NOYES: That's the sense of this committee.

9 DELEGATE BYRON: They claim that people on the
10 committee are capable of certain aspects of that
11 commercialization and understanding of the market ability, and
12 that still may not go as far as the business financial side of it.
13 And that may still be separating it.

14 MR. HAMLETT: I could see the VEDP venting being
15 one piece of the analysis that is brought to us and a separate
16 analysis and some sort of, whether it's just venture capitalists,
17 and we'd have to probably pay for their time or just say graduate
18 business school, a professor or two, working together and doing
19 an analysis.

20 The ideal to me is a couple of business school
21 professors and a couple of venture capitalists. I don't think they
22 need to be face to face. I think a business plan in this whole
23 comprehensive package would include all of these, could be sent
24 to a venture capitalist, and say in two weeks, we'll have a
25 conference all or we could be in a virtual meeting, not we, but

1 the group of, or you could be in a virtual meeting just as easy as,
2 and you could do that over the phone as you could in person.

3 I don't see the logistical issues that VEDP feels. I
4 truly believe that for us to get good advice about commercial
5 viability that we do need something from a venture capitalist or
6 business schools in addition to what VEDP gets. I don't
7 understand their reluctance to not do this.

8 As I understand it, part of the spelling out of what
9 group the VEDP would put together, it has for a while included
10 line that it says venture capitalist.

11 MR. STEPHENSON: I believe the original plan had
12 that as an election on the part of VEDP.

13 MR. HAMLETT: To your knowledge, have they ever
14 used a venture capitalist?

15 MR. STEPHENSON: Not to my knowledge.

16 MR. HAMLETT: I'm not sure of that reluctance, but we
17 could go out and hire our own group to do this analysis. I think
18 that answers your question.

19 DELEGATE BYRON: The staff starts investigating an
20 scoring whether we can start something or find something like
21 the Darden School. We can start finding out, one, whether or not
22 we can do a pilot for the next round and see if they'd be willing
23 to work independently of the partnership or do something to
24 share their analysis with VEDP in order to come to a complete
25 understanding.

1 MR. NOYES: Basically, the exact way to go is to have
2 a bifurcated process. A VEDP process as it's currently
3 established and have staff develop a separate path that would
4 involve a business school or some combination of a business
5 school and some former folks that are willing to review for a cost
6 review.

7 What I'm wondering about is a logistical question. At
8 what point do we kick in this second half, is it at the point where
9 this committee makes a decision to refer an application to VEDP
10 for venting and then that triggers going forward to get the
11 business school and VC, or do we require an applicant to have
12 prepared that business plan at point of application so you have a
13 chance to see what they sent in before you make a decision on
14 referring it to VEDP for the second batch?

15 It could be worked out if we have to pay 10,000 or
16 15,000 for a business plan and then have this committee say no,
17 we're not for this one. I don't think we want to do that.

18 DR. FOWLKES: I serve at your pleasure on the
19 Review Panel. What the Review Panel would like to see is that
20 we require in the application a business plan. On the committee,
21 as you're aware of, representatives from the University of
22 Virginia, Virginia Tech, VCU, University of Maryland, West
23 Virginia. And each of those members is willing to share that
24 business plan with the business school at their respective
25 universities. So all they're doing is they're just requesting what

1 is required in the application process, a business plan to be
2 submitted along with their technical plans.

3 So there's a process in place for a review to take place
4 of those business plans. It's not a requirement at this point for
5 that to be submitted.

6 MR. NOYES: I think at your last meeting you made it
7 a requirement that there be a business plan that accompanied
8 the application, a stand-alone business plan. The process is as
9 Dr. Fowlkes described it. That would satisfy it, and you'd have
10 five universities or three or four universities and their business
11 schools looking at it and commenting. It doesn't, that can get to
12 a score, not to the weight.

13 DELEGATE BYRON: That's the part that the
14 partnership said that they didn't want to do.

15 MR. NOYES: That's my understanding. I don't want
16 to speak for the partnership, waiting is winners and losers.

17 DELEGATE BYRON: The other thought we're requiring
18 a business plan and if we do our separate and bifurcated, there's
19 nothing stopping the schools from giving an opinion about a wait
20 or business plan, as well, is there?

21 MR. NOYES: You need to score against the assigned
22 percentage weight. I would expect the business plan to be
23 scored the same way as the other ten questions.

24 DELEGATE MARSHALL: If any of you have sat in on
25 one of those reviews in Richmond back in September, that kind

1 of answers my question.

2 Ned, when you send an application to the partnership
3 and they send you a score, the score is not weighted, correct?

4 MR. STEPHENSON: That's correct.

5 DELEGATE MARSHALL: So then that score comes
6 back to the staff, and with that score, we come back with what,
7 the magic number is five?

8 MR. STEPHENSON: The raw score comes from VEDP
9 to staff. And we present the raw score to you and you choose.
10 In the upcoming cycle, you've asked us to take the raw score and
11 weight them according to this formula. So you can put a little
12 more priority on some elements than others. When you see the
13 scores next time, they will be weighted scores according to your
14 directive.

15 SENATOR PUCKETT: Ned, you'll be weighting that
16 weighted value?

17 MR. STEPHENSON: At the last meeting of this
18 committee, this committee chose these desired weights. We'll
19 simply do the math.

20 SENATOR PUCKETT: Explain to me then how the
21 business plan, don't they go through the same process? VEDP is
22 not putting any weight on it, you're the one putting the weight on
23 it.

24 MR. NOYES: They can't. They can come up with a
25 score and staff can do the weighting consistent with what it is.

1 What I heard Dr. Fowlkes say until recently, we had not required
2 a business plan accompanying an application, so they couldn't
3 score it to begin with.

4 SENATOR PUCKETT: If we do require that, all they've
5 got to do is score it and give it to Ned.

6 MR. STEPHENSON: Madam Chairman, I may be a
7 little blunt, but we pay them about 130,000 a pop, and if we say
8 we need a score, give you one.

9 SENATOR PUCKETT: For another 25 grand?

10 DELEGATE BYRON: How much is a pop?

11 MR. STEPHENSON: A hundred and thirty grand each
12 time VEDP presents, each cycle.

13 SENATOR PUCKETT: Madam Chairman, maybe there's
14 something I'm missing, and if we chose to include it, and if that
15 makes a difference in the 130,000 a pop, and if we go outside
16 and somebody else does it, we're still going to have to pay.

17 DELEGATE BYRON: When we talk about costs for this
18 process in general, do we get any changes in regard to the staff's
19 original recommendation that actually gives us guidance to send
20 that to the partnership?

21 MR. STEPHENSON: I don't believe so.

22 MR. NOYES: I can't think of anything different,
23 different direction that we've got.

24 DELEGATE BYRON: Basically, it's based on, why don't
25 you tell me?

1 MR. STEPHENSON: Are you speaking of staff's initial
2 review of incoming applications?

3 DELEGATE BYRON: Yes.

4 MR. STEPHENSON: We try to review them for
5 eligibility from the basics to make sure that it's an eligible
6 applicant and it's in the proper format, those kinds of things.
7 Beyond that, staff makes the best judgment it can with limited
8 skills to do that as to which applications appear to be suitable for
9 study, we send those forward.

10 If the applications are entirely unsuitable for whatever
11 reason, we recommend they not move forward.

12 DELEGATE BYRON: My question is would there be a
13 value to bringing the venture capitalist or the business plan that
14 before we go to Step 2.

15 DELEGATE MARSHALL: You mean the partnership?

16 DELEGATE BYRON: Yes.

17 MR. NOYES: That's what I was trying to get to earlier.

18 MR. STEPHENSON: We could, and it would lengthen
19 the cycle and add a third step.

20 DELEGATE BYRON: And do we meet, when?

21 MR. NOYES: You sent them, I think you have to, you
22 can have a simultaneous track, not delay the process or impede
23 it with additional facts. We can get a venture capitalist after you
24 decide which way you're going to go.

25 DELEGATE BYRON: We're still spending money on

1 this process. We need an adequate business plan to back that
2 up.

3 MR. NOYES: We'll get as much weight than based on
4 whatever the score is.

5 MR. STEPHENSON: Madam Chairman, the business
6 plan is a requirement and it is included in the application, and the
7 application lays on the table in front of the review committee, all
8 of the horsepower needed at that table from the various
9 universities. And as Rachel said, they have access to the very
10 same resources that we would be trying to go get outside of that
11 table.

12 It seems to me the most sufficient solution is for us to
13 find a way to have that review or the respective universities
14 provide that score inside the venting process.

15 MR. HAMLETT: The only reason I brought up the
16 venture capitalist piece of that at the last meeting was to have a
17 set of eyes analyzing the plan. I do that every day for a living.
18 This group of folks at VEDP put together, I don't think they do
19 that every day. To me, the commercial viability, the business
20 plan, running a business, that group, I think, is very strong in
21 analyzing science, and I can't think of a better group in the world
22 to look at.

23 How about the business and its potential, it's
24 commercial viability, and venture capitalists do that every day,
25 all day long. You won't find a better group.

1 As for the timing, it seems to me that the time that
2 we, as a committee, choose to make a further investment in that
3 applicant sending it to the VEDP simultaneously we can send it to
4 the venture capitalists, to a group of venture capitalists while the
5 VEDP is doing their business. It seems to me that's heavily
6 inconsistent on the science, and we've also got venture
7 capitalists looking at the business plan, the commercial viability.

8 MR. NOYES: Maybe it can be simultaneous. I would
9 agree with you that venture capitalists do that all day. Their
10 benchmark is, but when you look at capital investment outcome,
11 and I remember a college professor told me a few years ago that
12 he wouldn't do the deal, but the committee has to understand
13 that venture capitalists are interested in money they can make
14 within a certain period of time. We have to be a little careful,
15 some of them were interested in capital investment or
16 employment outcomes.

17 MR. HAMLETT: We're not asking them to invest in this
18 venture, which is normally what they're doing. We're not really
19 asking them to do that. We're asking them to analyze the
20 viability.

21 MR. NOYES: I just want members of the committee
22 to be sure that's a great idea.

23 DELEGATE MARSHALL: The question is one out of
24 100, but what about the other 99? We're going to lose some
25 people there. The information we get back from them, are we

1 going to lose potential companies?

2 MR. HAMLETT: I don't think we're asking them if we,
3 if we ask for the analysis in the right way, we'll get their
4 qualitative analysis. In my opinion, we're not asking them for
5 anything quantitatively. But we're asking VEDP very quantitative
6 questions. I can see a four-page report coming back from a
7 venture capitalist that says for these reasons we think this is
8 strong, not just putting a number on it, just from an operation
9 standpoint or a technology standpoint, financial standpoint.
10 Competitive analysis, and here is our take on this proposal.

11 MS. THOMAS: As I recall, we attended that venting
12 process session. There were some venture capitalists
13 recommended. I'd like to ask Ned if he wouldn't mind telling us
14 who is the representative in that committee. The resources
15 might already be there.

16 MR. STEPHENSON: Madam Chairman, this is a power
17 point presentation dated July of '09 presented to you by VEDP
18 when we were contemplating having them review these
19 applications for us. This is VEDP's list of recommended
20 representation, venting table. UVA, Virginia Tech, one other
21 Virginia College, three out-of-state colleges, a globally prominent
22 design engineering firm, one national prominent company with
23 investment portfolio expertise, and two nationally prominent
24 venture capitalist firms. That was VEDP's pitch to you, which you
25 endorsed.

1 DELEGATE BYRON: Who represents those two firms,
2 are you aware?

3 MR. STEPHENSON: I'm not aware of that.

4 MR. NOYES: One of them is out of Portland, and the
5 other is out of Northern Virginia, SIR. They're at the table, and
6 there may be some different cycles, I don't know. I'm at arm's
7 length on the venting process.

8 MR. STEPHENSON: The point is that VEDP presented
9 to us that there would be venture capitalists at the table. They
10 indicated probably there are or is that satisfactory or is that
11 enough?

12 MR. NOYES: You don't have all of those players as
13 part of the venting process in any given cycle or some subset of
14 those.

15 Mr. Stephenson, would it be sufficient for the
16 committee to ask VEDP that the venture capitalists be present at
17 each cycle?

18 MR. HAMLETT: Didn't we ask them, and they told us
19 no?

20 MR. STEPHENSON: Correct.

21 My point is that we're paying them.

22 MR. OWENS: Remind me how we pay and what we
23 pay. We pay 130,000 per cycle or per applicant, how does that
24 work?

25 MR. STEPHENSON: The committee fixed an annual

1 budget for the venting process of \$400,000 per year. And when
2 the invoices come in, guess where they are?

3 DELEGATE BYRON: I might also add we cut back so
4 that also will cut that figure back.

5 MR. STEPHENSON: Four hundred divided by three,
6 one thirty per, per session, per venting session.

7 MR. OWNS: Do we have a count for this process?

8 MR. STEPHENSON: Two to six depending on the
9 cycle.

10 MR. NOYES: Didn't we calculate it or it was 20 grand
11 to vent one application?

12 MS. CARTER: What is the money used for?

13 MR. STEPHENSON: Travel and time for these
14 professionals to come to the table and do their work and for their
15 work at home in doing these applications.

16 MR. NOYES: Understand that these universities will
17 farm an application out within the university to whoever at that
18 university has the expertise. We're hiring the universities and
19 they pick the people, same thing with SRIs, which is as it should
20 be. I think we're getting very good advice.

21 DELEGATE BYRON: Do we need to go back to that
22 particular contract then and specify what we want for the money
23 we're spending? And maybe that should include the venture
24 capitalists, should be involved in the process.

25 MS. CARTER: Why do they go outside? Do you know

1 why they go outside the university, West Virginia, Maryland, who
2 else?

3 MR. STEPHENSON: I feel there was a valid reason,
4 but I don't remember at this time what that purpose was, but I
5 think we were all quite convinced that they needed to go outside
6 for expertise.

7 MS. CARTER: I would hope we go back to the
8 contract and look within the state at other universities. I don't
9 understand the reason that we go outside, I don't know what
10 their reason was, but unless there is a real profound reason, I
11 don't know why we would give them, first of all, go out of the
12 tobacco region and people wanting to start businesses and we
13 give them that information, number one; number two, I don't
14 understand the value.

15 MR. NOYES: If it is the case there, major universities
16 in the Commonwealth have ongoing business relationships with,
17 like institutions in different parts of the country. That's the way
18 universities operate. It's not the same ones every time other
19 than Virginia Tech and UVA, you're sort of set in stone.

20 MS. CARTER: I would hope that's something we would
21 look at.

22 DELEGATE BYRON: We can have staff address that.

23 SENATOR RUFF: You mean now is the time to go to
24 somebody like SRI and say if we were to do this, how would you
25 design it, and maybe they have some expertise that we're

1 overlooking. Maybe it's time we talk about bidding it out
2 between the partnership and SRI or something else.

3 DELEGATE BYRON: That may have some merit to it,
4 but I will say that in talking to Jerry, he said they ask each of
5 these individual folks on the committee if there was anything else
6 they needed to accomplish what we asked them to do, and they
7 felt they had everything in place.

8 SENATOR RUFF: But they're getting the dollars or the
9 dollar amount that they get from us, why would there be any
10 motivation to change anything?

11 MS. CARTER: I would agree.

12 DELEGATE MARSHALL: Are you going to try to do this
13 by the beginning of the year?

14 SENATOR RUFF: We can do it right now.

15 DELEGATE MARSHALL: Maybe we could have a
16 request for bids by July 1.

17 MR. NOYES: If there are other things that members
18 of the committee want to consider. If we're going to be focusing
19 more on the business impact, then we need five universities to
20 start with or maybe only two private sector entities. Maybe the
21 committee says from that menu we want three universities and
22 for a venture capitalist or maybe an engineer, somebody else, to
23 say this is what we want going forward and see what VEDP's
24 response to that is. And then if it's not satisfactory to the
25 committee, then try it a different way.

1 And then as the Senator suggested, there's no reason
2 we cannot work this out, there's no reason in the world we can't
3 do it. You may get Tennessee people as the low bidder, and you
4 may get Georgia as the low bidder, not anyone in the
5 Commonwealth. It's got to be rules.

6 MS. CARTER: Could we use an RFP?

7 MR. NOYES: No, the agreement was to go to a sister
8 agency and ask VEDP to make its recommendations to establish
9 this process. The committee decided to do it that way. We're
10 trying, we'll go back to VEDP and tell them exactly what it is we
11 want. If they say we're not able to do that, then we can look at
12 the next fiscal year.

13 DELEGATE BYRON: Does anybody have any argument
14 about that?

15 SENATOR RUFF: Other than I think we ought to reach
16 out to SRI at the same time and start dealing with them in this
17 process.

18 DELEGATE BYRON: Get a couple of different opinions
19 and that sort of thing, and that will probably be good for
20 everybody. This is all part of the process.

21 Now, the other side, again, is the active applications
22 taking place now. Until we get to Point B, we still need to make
23 sure we are confirmed of the direction for the application process
24 itself, the applicants, per se.

25 So do we all agree that there may be an agreement

1 that we're certain and that it's confirmed that we want all
2 applicants to submit a business plan, and I believe that would be
3 effective immediately going back to the other applicants telling
4 them they need one. We haven't gotten them yet, but still
5 working on them.

6 MR. NOYES: That's to come in with the application, at
7 point of application, and not at some later point in the process.

8 DELEGATE BYRON: As a reminder also as far as the
9 applications that we tabled at our last meeting that have come
10 back from the partnership with a rating on them was the raw
11 score, I believe. We instructed them, and I believe not
12 satisfactory to the new 70-30 that we were looking at, we
13 allowed them to go back and to put a business plan with that.

14 My understanding is, and correct me if I'm wrong,
15 staff is going to make a recommendation and weight those for
16 our January meeting?

17 MR. STEPHENSON: Yes.

18 DELEGATE BYRON: So you know what's coming
19 before you in a couple of weeks. There'll be two applications
20 coming back that we will, the staff will have reviewed the
21 business plan, give a score and recommendation to the
22 Committee, correct?

23 MR. STEPHENSON: Yes.

24 MR. NOYES: There were two that were tabled.

25 MR. STEPHENSON: Two applications that already

1 have a score, they're waiting for January. There are two more
2 that are getting a score as we speak. They will be on the table in
3 January. Then there is one more application that is approaching
4 you for their second year of funding, and they bypass the venting
5 process, the scoring process second time through.

6 MR. NOYES: One of them that's been before us,
7 there's one withdrawn.

8 MR. STEPHENSON: You will have five before you in
9 January.

10 DELEGATE BYRON: The last one was one that Danny
11 and I met with. I'm not including that in this right now. I'm
12 referring back to the two that we tabled. Did one of those
13 withdraw or one of the others?

14 MR. STEPHENSON: One of the others withdrew. You
15 have two that already have scores, and they're just waiting until
16 January. You have two more that are now getting their scores as
17 we speak. Those will be in front of you in January.

18 DELEGATE BYRON: They're going to be weighted and
19 have a recommendation from the staff?

20 MR. STEPHENSON: All will be weighted.

21 DELEGATE BYRON: We'll have a different process in
22 January, at the January meeting.

23 MR. HAMLETT: Could I ask that when we get the
24 scores, we could have a list of the committee out of this VEDP,
25 the members of the VEDP group that vented them.

1 MR. STEPHENSON: Yes.

2 MR. HAMLETT: Can we see what that group is made
3 up of?

4 MR. STEPHENSON: Yes, sir.

5 MR. NOYES: You're talking about the organizations?
6 Those organizations and individuals and the scores --

7 MR. HAMLETT: -- For example, University of Virginia
8 Engineering School professors, such and such. If we could just
9 see a list of the people.

10 DELEGATE BRYON: You mean who was at the table?

11 MR. HAMLETT: Yes.

12 MR. STEPHENSON: Yes, sir.

13 DELEGATE BYRON: It would be probably worthwhile
14 during any one of those processes to go observe that.

15 MR. HAMLETT: I would love to.

16 DELEGATE BYRON: We just need to let the staff
17 know. You can't participate, but it's worthwhile to sit and listen.

18 DELEGATE MARSHALL: Would the staff let us know
19 when that next date is?

20 MR. NOYES: We can get with Jerry Giles and let you
21 know. We saw Jerry on Monday, and the meeting was Tuesday,
22 but there won't be a new cycle until after new recommendations
23 are made.

24 MR. PFOHL: It was yesterday.

25 DELEGATE BYRON: It's something that's worthwhile.

1 MR. HAMLETT: Could we also go back, and I know
2 maybe you've done this once, could we go back to the VEDP, the
3 staff go back to VEDP? At least from my perspective, we could
4 tell them at least one member of this committee may need to get
5 a sense of this committee that we strongly urge them to include
6 a component of their analysis being venture capitalists and/or
7 business schools.

8 MR. STEPHENSON: Should the strong urging include
9 a concept of bidding it out if they don't?

10 DELEGATE BYRON: I thought we were all in
11 agreement, maybe we need to --

12 MR. NOYES: -- Let's see how they respond.

13 DELEGATE MARSHALL: That's what they promised us,
14 that they would include venture capitalist people.

15 MS. STEPHENSON: We did ask them, I don't know
16 how you want to reply.

17 DELEGATE BYRON: Going back now with the changes
18 that have been made and the scoring and more focus in other
19 areas, maybe restructuring the weight of the expertise, a
20 different type of expertise to ask them to consider that. We
21 can ask him what his thoughts are, and then we can talk about
22 that.

23 MR. STEPHENSON: I can't speak for the partnership,
24 but I feel confident that Jerry would be happy to talk with you
25 about who sits at the table and the structure of that, and that

1 potentially could be an agenda item in January, time permitting,
2 that he talk to you about who's at the table, how you might want
3 to change that, then he can go home and try to make that
4 happen.

5 MR. HAMLETT: I'm not so sure that he's going to be
6 happy to do that. We asked and we were told no.

7 MR. NOYES: We'll see.

8 DELEGATE MARSHALL: Can you make a copy of that
9 2009 sheet for January? We were promised --

10 MR. STEPHENSON: -- I think if you talk to the
11 partnership and tell them what you need, I think there would be
12 a likelihood that they would do that for you.

13 DELEGATE BYRON: Mr. Hopkins, did you want to
14 address that?

15 MR. HOPKINS: I'm Tim Hopkins with USP
16 International. Yesterday, I participated in the defense of one of
17 our grants applications that we submitted. And just for your
18 edification, basically there was a venture capitalist there, one of
19 the people that Neal talked about. They're a huge federal
20 contractor, and it involved a lot of major business deals.

21 West Virginia University was there. Most of the
22 university people, like Virginia Tech, Georgia Tech, UVA, and I
23 think there was a gentleman there from a small university in
24 Virginia. Some of the people didn't mention who they were with,
25 but most of these men were basically in the position that at these

1 universities where they were vice president of research, research
2 and development, or associate vice president of research and
3 development.

4 I think that encompasses kind of a generic title, kind
5 of overseeing all of the aspects of the university, not just focused
6 on technical things. Even in that process, a lot of questions that
7 at the table were more business related than really were
8 technical. Some of them were technical, but they were dressed
9 down pretty good.

10 In the latter half of the discussion when we get into
11 the business side of it, were very well focused on the business
12 side, what's your market availability and all these market type of
13 things. These are the kind of things that most venture capitalist
14 would ask about.

15 I know in New York for many years they've looked for
16 venture capitalists and those businesses, but I think you're going
17 to find it very difficult to find a venture capitalist is generic. In
18 other words, someone that can look at all aspects of different
19 entities that come before this committee.

20 MR. NOYES: That's absolutely true. VCs are an inch
21 wide and a mile deep.

22 MR. HOPKINS: They tend to focus on what they like.
23 If you're a new potato and you're going to beat the world, they
24 may not like that. So I think that scoring could be very one-
25 sided if it's not something that's in their portfolio, so I think you'd

1 have to be very careful. That's the only comment I would make.

2 DELEGATE BYRON: Thank you very much.

3 MR. HAMLETT: Madam Chairman, I would suggest
4 that a generic venture capitalist is not what we want, and I would
5 agree with the speaker on that. I would agree that for the two,
6 three, or four, each round if they're looking at that, they go to a
7 venture capitalist firm that is in that business and that it fits
8 within their inch-wide expertise.

9 MR. NOYES: We will have that conversation with
10 VEDP and will make a space on the agenda. We meet in January
11 to hear back from them.

12 MS. NYHOLM: If the business plan is part of the
13 application and comes to us early and also comes along with the
14 venting process and have an inch-wide VC member at the table,
15 we'll get some remarks back from our specialist. And do we pay
16 for that, or is that included in the plan?

17 MR. NOYES: As Ned said, you also expect to get a
18 score, it will not be weighted, and it's your job to assign the
19 weights. Then Ned and I can do the math.

20 DELEGATE BYRON: That reminds me that business
21 plan is part of the application requirement now, wasn't
22 necessarily there before. If we come up with a format or a
23 standard for that business plan, then the committee or the staff
24 is going to see that, their recommendation to us, as well, which
25 should make a difference in that first process that we go through.

1 For all of us, we should be able to look at that, as well, and if we
2 have any questions or if we don't feel the plan is adequate
3 enough, then send it back. That's a good point to remember.

4 MR. NOYES: Staff recommendation, it was basically
5 refer or not to refer. And that's incorporated into that
6 recommendation.

7 Now, Madam Chair, a moment ago, I heard someone,
8 looking for not only a weighted-score, but some type of
9 recommendation presumably based on that weighted-score. Is
10 that what they're expecting in January from this because we
11 have not done that before?

12 DELEGATE BYRON: We talked about a funding
13 recommendation. This is the last piece we haven't discussed yet,
14 the amount of the grant. It was brought to our attention by the
15 partnership in particular that the funding requests are higher
16 than other agencies in regard to seeing and granting. I think it
17 was something we might have had a brief discussion on. We said
18 they come in with an application for X amount of dollars, and it's
19 never half of that like our other applicants we have with other
20 committees. What they ask for is what they get. I thought we
21 had discussed a funding recommendation from the staff.

22 MR. NOYES: Staff does talk to R & D applicants about
23 the specific line items. There's a staff recommendation to refer
24 to VEDP for venting. That process has already taken place. In
25 other words, I'm convinced that we need a million dollars' worth

1 of equipment, and I asked that question. It's the same process
2 that we go through with in the other programs.

3 The difference is that some of the other programs, the
4 committee will say after all the review, instead of 200,000, you
5 get 160,000. That doesn't happen here.

6 DELEGATE BYRON: Doesn't mean it can't happen.

7 MR. NOYES: The numbers are up to this committee.

8 MS. THOMAS: Madam Chair, the comment was also
9 made by some member of the group that a cap was five million,
10 was a very large cap, and much larger than nationally on grants
11 that are made. It was a big surprise with the grants that we
12 were making, the size is what they mentioned.

13 DELEGATE BRYON: Did we put a cap on any of that?

14 MR. NOYES: We put a four or five hundred thousand,
15 we had a dollar-for-dollar match, because otherwise we could get
16 a \$30,000 application. The cap of \$5 million, that large, and
17 specifically to entice those types of projects that might have
18 more immediate and larger type of impact, it could be up to
19 three grant cycles. It's possible for someone to get up to \$15
20 million.

21 DELEGATE BYRON: Once again, I think the committee
22 is realizing that the changing of the process and the staff making
23 recommendations on money, and maybe we need to address
24 those changes first unless someone feels differently and someone
25 wants to bring it out. Let the applications or that part of it stay

1 the same, meaning that isn't always what they're going to get.

2 I don't know, is there anything else that needs to be
3 brought up? I think we've addressed everything we need to
4 address.

5 MR. NOYES: Certainly because it came up when Tim
6 and I met with Mr. Giles earlier this week. Is there a sense of
7 the committee asking for an upfront application fee from the
8 businesses that are asking us to spend \$20,000 to have their
9 applications vented? That's something that Tim and Jerry and I
10 talked about. We haven't done that in the past, but --

11 DELEGATE MARSHALL: How much would you ask for?

12 DELEGATE BYRON: Is that process done for --

13 MR. PFOHL: -- I'm not aware of that. We'd have to
14 look into that.

15 MR. NOYES: The U.S. Department of Agriculture has
16 an application fee for some of their programs.

17 MR. HAMLETT: How do they base their fee?

18 DELEGATE MARSHALL: I'd ask the staff to think
19 about that and give us a proposal and we can talk about it next
20 time.

21 MR. NOYES: Be happy to do it. It was a nonstarter
22 with the committee.

23 DELEGATE BYRON: It's a little bit different from the
24 other committees, not that far off.

25 MR. NOYES: I'm not suggesting this be the policy

1 across all the commission committees.

2 SENATOR RUFF: Madam Chairman, I'd move that we
3 ask the staff to come up with a recommendation on that.

4 DELEGATE BYRON: Does everyone agree with that?
5 All right. We'll do it.

6 DELEGATE MARSHALL: Madam Chair, one thing we
7 talked about briefly in Round 2 and Round 3, the chairman and I
8 talked to a group in Round 2, and we wanted to make sure that
9 the committee is okay with this, and for Round 2 or Round 3,
10 Round 2, not send it to the partnership for venting for Round 2,
11 that the staff would review the applications, we don't move
12 forward with Round 2 if we're not done with Round 1. Then
13 ultimately come to this group for final approval.

14 DELEGATE BRYON: But we all agree on the 70-30? Is
15 everyone in agreement on the 70-30, we can move forward on
16 that? All right.

17 Unless there is something that the staff receives that
18 we're not clear about, you're going to come back to the
19 committee in January at our brief meeting and we'll address Mr.
20 Giles with the partnership in regard to structuring those items on
21 the team and you're going to bring back some information to us,
22 so on the application fee idea and on some other information
23 from SRI and other groups?

24 MR. NOYES: I don't know that we'll have anything
25 from SRI by January, certainly by the time we meet --

1 DELEGATE BYRON: -- There's a holiday in there --

2 MR. NOYES: -- We were talking in terms of starting
3 something new in the next fiscal year.

4 DELEGATE BYRON: Then we'll talk about that at a
5 future meeting. Maybe we've discussed this pretty thorough at
6 this point.

7 MR. NOYES: We will have the weighted-scores
8 available for the committee when we meet in January on these
9 five.

10 MR. STEPHENSON: Madam Chairman, I'm not clear
11 on this, but I'm primarily bringing up the matter of whether you
12 want to fix an application deadline at this point in time for your
13 May meeting cycle and to give as much notice as possible to
14 everybody?

15 DELEGATE BYRON: The only difference is a reminder
16 that it needs to be, are you referring to the business plan? Right
17 now, it's going to be a requirement. I don't know if we can
18 accomplish that --

19 DELEGATE MARSHALL: -- So if we have, that would
20 be received for us in May, we could still at the next board
21 meeting do that?

22 MR. STEPHENSON: Potentially if you were to set an
23 application deadline mid-March, then VEDP would have time from
24 mid-March until mid or late May to do their work and submit the
25 results, and you would see them in May.

1 DELEGATE MARSHALL: Where I'm going with this is
2 that if we --

3 MR. STEPHENSON: -- The issue is that it takes one
4 staff cycle before VEDP sees them.

5 MR. NOYES: That's where I was going. The
6 applications coming in, in March or April, get referred, and the
7 funding decision would be the September meeting.

8 MR. STEPHENSON: There is no VEDP work between
9 now and May.

10 MR. NOYES: We'll save a few bucks.

11 DELEGATE MARSHALL: So if we go out to bid for the
12 next step to whomever it's going to be so their time would start
13 July 1, and the May cycle, we would stay under the same
14 procedure we currently have with the partnership review?

15 MR. STEPHENSON: I'm not clear on your question.

16 DELEGATE MARSHALL: If we use Frank's idea about
17 going forward with an RFP to see if we have, get somebody else
18 to do our review of the applications, we would probably want to
19 try to make that effective July 1?

20 MR. NOYES: I think we'll know in the second week in
21 January whether or not VEDP is available to make changes. If
22 they are amenable to making these changes, then we won't go
23 out for an RFP. If they say for whatever reasons they prefer not
24 to make those changes, there's ample time to put something out
25 for an RFP, have it in place July 1st, ample time.

1 DELEGATE MARSHALL: Even if the partnership says
2 to make the changes, I still think we might check out the RFP,
3 there might be a better model out there that we don't know of.
4 Somebody might come back with us and might know, in other
5 words, we might not know what we don't know.

6 SENATOR RUFF: Madam Chairman, I think that Neal
7 can still have the conversation and get some sense of whether
8 we're in the ball park with them or not.

9 DELEGATE BYRON: We can certainly discuss it in
10 January.

11 MR. STEPHENSON: So fixing the deadline --

12 DELEGATE BYRON: -- We need to do that. The
13 deadline you suggested was what?

14 MR. STEPHENSON: I said mid-March, a little later
15 than that.

16 MR. NOYES: The third Monday in March.

17 MR. PFOHL: Thursday, March 15th.

18 DELEGATE BYRON: That should be fine.

19 Any technical stuff before I ask for public comments?

20 MR. PFOHL: We will add to the online applications and
21 the requirement for a business plan? I didn't hear any
22 movement towards changing the maximum funding amount of
23 five million, and I assume that stays in place for the time
24 being?

25 DELEGATE BYRON: Yes. Did we ever put anything

1 out that needs to be corrected or clarified on changes to be made
2 to the different weighting that we have addressed?

3 MR. PFOHL: We haven't published that, but we
4 certainly can advertise a new proposal.

5 DELEGATE BYRON: They should be aware of what
6 we're looking for.

7 MR. PFOHL: Happy to do that.

8 SENATOR RUFF: I'm not sure I would agree. We
9 want them to put the best proposal forward in all categories. We
10 don't want them to sit there and ignore something because,
11 Delegate Byron, I was talking more in generalities than I was
12 anything specific. We can have as much emphasis in regard and
13 maybe if they weren't aware of it, commercialization and jobs
14 and the marketing side.

15 MR. NOYES: Historically, applicants have been, I
16 believe there was an equal venting between the scientific merits
17 and commercialization merits based on scores. One aggregate
18 for each of them. We probably need to say something that the
19 committee has now directed that there be more emphasis on
20 commercialization rather than go through and say there'll be ten
21 percent market demand and so forth, maybe that can be
22 tweaked.

23 DELEGATE BRYON: We have our next meeting date
24 January 10 at 9:30. Unless the committee members have any
25 further comments, I'll ask if there's anyone from the public that

1 wishes to speak? All right, there's no one that wishes to speak.
2 I want to thank you all for coming. Then we're
3 adjourned.

4

5

PROCEEDINGS CONCLUDED.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

