

**VIRGINIA TOBACCO INDEMNIFICATION
AND COMMUNITY REVITALIZATION COMMISSION**

701 East Franklin Street, Suite 501
Richmond, Virginia 23219

Research and Development Committee Meeting

Monday, September 16, 2013

1:00 p.m.

Sheraton Roanoke Hotel & Conference Center
Roanoke, Virginia

CRANE-SNEAD & ASSOCIATES, INC.
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1 **APPEARANCES:**

2 The Honorable Kathy J. Byron, Chairman

3 Ms. Cindy M. Thomas, Vice Chairman

4 The Honorable Charles W. Carrico, Sr.

5 Ms. Mary Rae Carter, Deputy Secretary of Commerce & Trade

6 Mr. Burgess "Butch" H. Hamlett, III

7 The Honorable Daniel W. Marshall, III

8 Ms. Sandra F. Moss

9 Ms. Connie L. Nyholm

10 The Honorable Edward Owens

11 Mr. Kenneth O. Reynolds

12 The Honorable Frank M. Ruff, Jr.

13 The Honorable Ralph K. Smith

14

15 COMMISSION STAFF:

16 Mr. Timothy S. Pfohl, Interim Executive Director and Grants
17 Program Administration Manager

18 Mr. Ned Stephenson, Deputy Director

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

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

21

22 SENIOR ADVISOR:

23 Mr. Neal Noyes

24

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1 DELEGATE BYRON: Good afternoon. I'll call the
2 meeting of Research & Development Committee and ask Tim to
3 call the roll.

4 MR. PFOHL: Delegate Byron?

5 DELEGATE BYRON: Here.

6 MR. PFOHL: Senator Carrico?

7 SENATOR CARRICO: Here.

8 MR. PFOHL: Deputy Secretary Carter:

9 DEPUTY SECRETARY CARTER: Here.

10 MR. PFOHL: Mr. Hamlett?

11 MR. HAMLETT: Here.

12 MR. PFOHL: Delegate Marshall?

13 DELEGATE MARSHALL: Here.

14 MR. PFOHL: Ms. Moss?

15 MS. MOSS: Here.

16 MR. PFOHL: Ms. Nyholm?

17 MS. NYHOLM: Here.

18 MR. PFOHL: Mr. Owens?

19 MR. OWENS: Here.

20 MR. PFOHL: Mr. Reynolds?

21 MR. REYNOLDS: Here.

22 MR. PFOHL: Senator Ruff?

23 SENATOR RUFF: Here.

24 MR. PFOHL: Senator Smith?

25 SENATOR SMITH: Here.

1 MR. PFOHL: Ms. Thomas?

2 MS. THOMAS: Here.

3 MR. PFOHL: You have a quorum.

4 DELEGATE BYRON: Thank you, everyone is here
5 and welcome. I'm sure everybody has had time to read the
6 Minutes, and I'll entertain a motion to approve them.

7 MR. OWENS: So moved.

8 MS. NYHOLM: Second.

9 DELEGATE BYRON: All in favor say aye? (Ayes.)
10 Opposed? (No response.)

11 Ned, I believe you're next on the agenda.

12 MR. STEPHENSON: Madam Chair, this is just a
13 quick update to where we are today. We have Jerry Giles from
14 the Partnership. He's going to review before you today four
15 applications that you saw in May and sent to the Partnership.
16 He will review them today with the attending scores which have
17 been weighted, and those four are ready for your decision from
18 you today. They total a \$5 million request and the balance is
19 \$39 million, and that's the first order of business today.

20 We have one new application which you have not yet seen.
21 It's a somewhat late arrival and got here last week. The
22 Chairman asked that we at least look at it today and give it some
23 discussion, so that will be before you today.

24 Then we have a couple of housekeeping matters that will
25 appear a little later in the agenda.

1 With that, Madam Chair, and if it pleases the Chair, I'd like
2 to call on Jerry Giles for his review.

3 DELEGATE BYRON: Ned, with regard to the new
4 application, that went out to the members?

5 MR. STEPHENSON: Yes, it went out last week, late
6 last week.

7 MR. GILES: Good afternoon, Madam Chair and
8 members of the R&D Committee, and I apologize to the
9 audience for having my back to you, but no way to reconfigure
10 the room.

11 Today we're reporting on Round 9 of the R&D Commercial
12 Review Process. I'd like to go to the second slide, which is a
13 reminder to the R&D Committee members as well as all in
14 attendance exactly the metrics with which we score applications
15 submitted to the Review Panel for its both scientific and
16 commercialization review. This is quality and value
17 proposition and defense, but the real guts are basically in the
18 metrics above. These have served us well over nine of the
19 review processes, and we've had several other groups that have
20 basically asked for these and have had their own process in
21 their own particular space.

22 The next slide is the applications that will be presented
23 this afternoon in the review process, and you should read those;
24 and I apologize, one of them seems to have for whatever reason
25 slipped out of line. We have the Review Panel members and the

1 institutions represented. You'll see University of Virginia,
2 CH2M Hill, Georgia Institute of Technology and some
3 scheduling conflicts, not able to attend, that didn't participate
4 in this particular round. One of the reasons we have a good
5 population in terms of the Review Panel.

6 The scores are pre-weighted and they are shown below. I
7 caution you, as it says in a parenthetical statement, scores and
8 sequence do not match up with the numerical order in the
9 applications shown above.

10 What I'd like to do now, with the Chair's permission, is let
11 everyone hear a little bit of background to the grant request
12 provided by the Staff when the applications were sent over.
13 Then I'd like to comment in terms of the final recap and high
14 point for each of the four applications, both scientific as well as
15 the commercialization.

16 I'll start with Application 2697, American Mine Research.
17 The Bland County Economic Development Authority requests
18 \$600,000 on behalf of AMR for a second phase of applied
19 research focused on underground mine wireless
20 communications and atmospheric monitoring. The
21 Commission provided \$800,000 in 2010 to support this work,
22 and AMR has performed as promised, having hired ten
23 technical workers, provided all required financial match and
24 submitted new products to the United States MSHA for
25 regulatory review and approval. New funding would be used

1 for further testing, completion of the development of Mine Net
2 Mesh products, hiring of two new engineering workers, and
3 expanding the approvals process internationally. Matching
4 funds are committed and available with Tobacco Commission
5 funds to be used for personnel and contractual services. The
6 timeline for Phase 2 extends through Quarter 4 2014, and the
7 deliverables are clear and measurable. This application
8 anticipates that ten to twenty net new production employees
9 would be required for production after domestic and
10 international product approvals are secured, to be located at
11 AMR's Rocky Gap location in Bland County.

12 I'd further note members of the committee will have noted
13 that a portion of Tobacco Commission funds requested fall into
14 the sales and marketing category, and you will recall that,
15 parenthetically after the 2010 Phase I award, you modified
16 policy to limit the use of Commission funds for such activities.
17 Staff believes it would be possible to restructure the overall
18 budget ahead of Commission action in September on this
19 request. That is a policy issue that the Review Panel does not
20 deal with.

21 MR. NOYES: Madam Chair, I have been in touch
22 with the beneficiary, and the budget is restructured with our
23 funding going to support research, personnel costs, and Bland
24 does not oversee the sales and marketing activities.

25 MR. GILES: I would like to now move on with these.

1 I will with the subsequent applications the highlights and
2 summary comments beginning with the scientific studies.
3 Based on standard WIFI protocol, they have demonstrated
4 capability. Other competitors require hardwired
5 infrastructure. (Mine Safety and Health Administration
6 (MSHA) ultimately may require or mandate wireless.)

7 The technical team is solid, demonstrated success in the
8 past with Phase 1 and other projects. Long company history in
9 the field.

10 No need for added technical development, unless it should
11 arise from MSHA's review.

12 Concern about MSHA approvals and timing thereof, but
13 they, meaning AMR, are confident of late 2013 or early 2014
14 closure.

15 Moving on to the summary concerning commercialization.
16 Good product technically robust and scalable. Strong
17 management team; proven, experienced company. Potential
18 market demand is substantial, but not totally analyzed in the
19 presentation. Financials, pro forma, cost profiles, and analysis
20 of these costs versus competitor options, were not fully
21 presented to the panel's level of expectation.

22 Moving on to Application 2698, Excavation Alert Systems.
23 The request is for \$1.5 million to enable Excavation Alert to
24 "finalize the development of its ExcAlert devices, set up
25 manufacturing in the Region, and begin commercialization."

1 Excavation Alert proposes to "establish operations ... in a small
2 industrial facility with adjacent land for device testing."
3 Initially there would be three FTEs with periodic visits by
4 company principals based outside the footprint, and the
5 expectation is that employment and capital investment would
6 grow as a function of an expanding order book, that is to say,
7 \$60 million annual revenue projected by the fifth year of
8 operations. Thirty-seven FTEs at an annual wage of \$57,000
9 and an additional \$4 million in taxable capital investment are
10 projected. A patent application for the ExcAlert System is
11 pending.

12 Milestones and deliverables are clear and measurable.
13 Please note Milestone 3 where Excavation Alert proposes to
14 "evaluate potential mass manufacturers located in the tobacco
15 region and select a manufacturer to enter into a teaming
16 agreement ... for production ..." TICRC funds would be used for
17 activities in all line items except transfer payments. Matching
18 funds, from a Series A convertible debt round and the Center for
19 Innovative Technology, are not yet committed and available.
20 The detailed business plan shows work continuing through
21 Quarter 4 2015 with TICRC funds required through that point
22 (Milestone 8- Launch of High Volume Manufacturing-estimated
23 for 12/31/2015).

24 Review Panel highlights on the science. Powerful
25 concept, passive approach versus human error prone proactive

1 model. Project is at an advanced design stage, ready to pilot
2 soon. Milestones which were presented were reasonable and
3 believable. Panel expressed some concerns over long term
4 durability; needs accelerated lifetime testing. Any
5 environmental impacts from canister leakage were not fully
6 fleshed out in the presentation. Also, no arguments presented
7 to evidence it is acceptable to leave the product buried in the
8 ground indefinitely.

9 Commercialization highlights. The solution proposed has
10 the potential to tackle a big and costly problem related to
11 excavation in close proximity to buried infrastructure. The
12 design impresses with respect to its elegant simplicity and
13 robustness. There is broad business expertise across the
14 management team and its advisory board supports their ability
15 to commercialize the product, leveraging of experience from
16 prior company. Strong industry person will be joining the
17 team, following funding commitment attainment. There were
18 some diverging views on the size of the available new pipeline
19 market. Presently, the much larger retrofit market not
20 presently available. Unclear as to how long the Pipeline and
21 Hazardous Materials Safety Administration, PHMSA,
22 recommendation/approval will take.

23 Moving on to Application 2699, Lite Sheet. The request is
24 for \$2 million to enable LiteSheet Solutions, LLC, which is a
25 wholly owned operating company of Connecticut -based

1 LiteIdeas, LLC, that is the owner of the intellectual property, to
2 continue research and establish manufacturing operations at
3 an as yet to be determined location within the Commission
4 footprint. LiteSheet is an early stage "innovation" enterprise
5 working in the globally highly competitive LED lighting
6 technology space where, according to the application, the
7 United States significantly lags other nations. Four domestic
8 patent applications have been filed and international filings are
9 planned. The overarching research and development objective
10 is "to continue development of leading edge direct alternating
11 current LED driver and chip-on-board, light guide plate,
12 reflector and diffuser designs for a wide range of products to be
13 commercialized." More simply, LiteSheet would use TICRC
14 funds to "finalize development of its first generation LED
15 lighting system, and obtain vital commercial certifications, for
16 example Underwriters Laboratory, while working to develop the
17 "next generation of LED lights."

18 LiteSheet appears to have a number of non-Virginia
19 domestic partners and potential partners or clients, as well as
20 international partners that "would allow our technology to
21 migrate ...," but as yet no clear supply chain or "a contracted
22 finished goods supplier" that would presumably be located
23 within the Commission footprint ahead of LiteSheet itself
24 beginning manufacturing operations. The application states
25 that "the benefit to the region will be in the form of job creation,

1 tax revenue, and the operations of a leading edge illumination
2 company." SWVEDCF would hold equity as "an investor."
3 Job creation is estimated at sixty-five FTEs within three years of
4 Commission funding. "As for taxable private investment, the
5 Company ... estimates needing only an additional \$250,000
6 within three years." Milestones and deliverables are clear, and
7 show design and manufacturing/assembly for first and second
8 generation products as well as continuing operations and an
9 "expansion decision" in Quarter 1 2015 and a project end date
10 of Quarter 3 2015.

11 The budget indicates that TICRC funds would be used for
12 equipment, and a detailed list is provided, though the fund
13 details section adds that "funds may be reallocated to other
14 expenses as business needs are identified." The latter would
15 require an approval by the committee or, on a limited basis, the
16 Executive Director. Most matching funds are not yet
17 committed and available.

18 Review Panel comments on the science. Technology
19 appears strong; intellectual property appears promising.
20 Alternating Current (AC) to LED light capability may be a major
21 breakthrough. Management team's attention to mechanisms
22 of failure of other LED systems has led to greater simplification
23 and projected product robustness. Strong technical
24 leadership. Highly manufacturable product at lower cost
25 structure. Potential of longer useful life due to lower current

1 levels. Panel would have liked to see more detail on follow on
2 research to be conducted and how milestones will be met.
3 Competitors in the (AC) LED space are formidable (R&D
4 capabilities) with deeper pockets than LiteSheet and its parent,
5 Lite Ideas, LLC.

6 Comments on Commercialization. Tremendous market
7 potential in this space which already exists and will continue to
8 grow. Focus on commercial/industrial applications (versus
9 retail big box sales) due to higher efficiency is appropriate.
10 Strong management team to launch commercialization.

11 Moving on to the next application, 2700, Paradigm of NY,
12 LLC. The request is for \$1,132,000 to enable Paradigm to
13 further develop, test, and obtain certifications that being the
14 California Air Resource Board, EPA and MSHA, for a diesel
15 engine emissions control product that uses a high voltage
16 "corona and plasma field" in combination with catalytic filters to
17 reduce pollutants. Paradigm has created a prototype and has
18 filed an application covering the reactor system design.
19 Research objectives involve optimizing the reactor by
20 miniaturizing electronics to enhance durability and efficiency.
21 Target markets for this product include small and medium size
22 diesel engines used in mining, generators, transportation and
23 construction. If successful, manufacturing, sales and
24 distribution of the Paradigm system is promised within the
25 Commission footprint, with sixty-eight clean energy jobs at

1 \$49,000 and further capital investment of \$1,648,000. It is
2 noteworthy that there appears to be OEM interest at this point.

3 TICRC funding would be used for personnel, contractual
4 services, continuous charges, equipment and plant and
5 improvements. Matching funds are not yet committed and
6 available, so that your policy that no TICRC monies may be
7 disbursed until all funds identified in the application as
8 necessary to accomplish project objectives are in-hand will
9 apply. Milestones and deliverables, with project duration
10 going through Quarter 4 2014, are clear and measurable.

11 Scientific summary recap of this particular application.
12 The emissions control technology being pursued may have
13 potential; it has been studied by numerous entities inside and
14 outside the U.S. The applicant team presented no product
15 which has been reduced to practice. No evidence that
16 controlling diesel emissions was presented. Lack of a
17 compelling R & D road map with clearly defined milestones
18 undercuts the viability of their proposal. No
19 indications/evidence on performance increase/decrease and
20 under what testing conditions. Relevant expertise on their
21 team is not convincing with little experience in the planned
22 system development. Milestones in general are moot as there
23 is no sound technological base demonstrated for their product.
24 Commercialization recap points. Panel received no clear
25 understanding of or defense for the applicant's "go to market"

1 strategy. Road map as to how the applicant team would
2 achieve production in the timeline provided was neither
3 compelling nor defended in logic. No detailed financial
4 projections were presented for defense. Long term impact on
5 the tobacco region was not well defined for the Review Panel.

6 That concludes my recap summary.

7 Madam Chair, I'll be glad to answer any questions.

8 DELEGATE BYRON: Do any members of the
9 Committee have any questions on any of the applications?

10 MR. OWENS: On the first application, financials pro
11 forma cost profiles on analysis of these costs versus competitor
12 options were not fully presented to the panel's level of
13 expectation. Is that what you're talking about in here, or is
14 that different? 2697.

15 MR. NOYES: I was referring to the budget line
16 items.

17 MR. OWENS: The last statement you had on here.

18 MR. GILES: In my opinion those two things, not
19 saying it's not in conflict. What this basically says is I've
20 expected to see more, it doesn't mean the panel members scored
21 significantly lower on expectations. The whole system relies on
22 what are skills and definite knowledge and definite needs.
23 They expect, just as you would expect when somebody comes in
24 and presents an idea or asks for money, to automatically and
25 intuitively have expectations about those elements that you're

1 looking for were addressed here.

2 DELEGATE BYRON: Any other questions?

3 MR. HAMLETT: 2698, on the last page the point
4 about some diverging views on the size of the available new
5 pipeline market. Presently, the much larger retrofit market not
6 presently available. What is it about this technology that
7 makes existing pipeline not applicable?

8 MR. GILES: It's not so much they're not applicable,
9 but basically the strategy to market this application is to go
10 after the new pipeline which there is substantial particularly the
11 natural gas. We're all familiar with that. The applicant team
12 presented some members with their source data. One of our
13 Review Panel team leaders, these people do their homework,
14 and had done in this case her homework, and those two
15 members were not perfectly in line, and that source at this time
16 came from that particular experience. What we're saying is
17 that the market for existing pipelines on a relative basis is much
18 larger than new-built technology. New-built would be an
19 easier pathway in terms of getting product.

20 MR. HAMLETT: 2699. The competitor, this is the
21 LED product. The competitors out there, is this company
22 aware there are other competitors working on the AC model of
23 LED?

24 MR. GILES: Yes, sir.

25 MR. HAMLETT: There are competitors out there

1 working on AC?

2 MR. GILES: Well aware of that, says the Review
3 Panel.

4 SENATOR RUFF: On 2699, what did you say about
5 the investment? They had not identified that background.

6 MR. GILES: That would be in the background.

7 MR. NOYES: That's what I had written as a
8 recommendation to the sub-committee.

9 SENATOR RUFF: There is no physical there --

10 MR. NOYES: -- That was in the application in my
11 record, in my write-up. They hadn't identified where the
12 project would be located.

13 MR. GILES: I think that's correct. They
14 understand that's the way the system works.

15 MR. OWENS: All our grants depend upon all the
16 funding be in place before we distribute any money.

17 MR. NOYES: That's the policy of the Committee.

18 MR. OWENS: So all the funding must be in place.

19 MR. NOYES: Projects are approved, no
20 disbursement until all funding is in place and identified in the
21 application and necessary to accomplish the project and
22 committed and available. Projects have a year to get started,
23 three years to complete them.

24 MR. OWENS: We put a hold or the equity?

25 MR. ROGERS: I'm Ed Rogers from the Clean Energy

1 R&D Center representing Southwest Higher Education Center
2 Foundation. About a year ago the Committee adopted a policy
3 regarding the revenue return proposal with all these
4 applications. How would the Commission or its grantee receive
5 back revenue from these projects? The way we approached
6 that was proposed, and we did this in October of last year,
7 proposed that the Foundation would hold actual stock in the
8 company as a fiduciary for the Tobacco Commission. It could
9 be the Tobacco Commission could hold it directly, but our
10 proposal was for the Foundation to hold it. The reason for that
11 is that the company, just like people value what they pay for,
12 and if it's free money they're not going to value it as much or give
13 up equity or some other right and treat it more seriously.
14 We've been very disciplined about weeding out companies
15 looking for a hand-out or looking for free money. We approach
16 this like a venture capitalist, and companies realize they have to
17 give up something in exchange for the money. In addition as a
18 stock holder the Foundation are the eyes and ears of the
19 Commission, and that along with other investments according
20 to the policy know what's going on, and that's different than if
21 there's just a path through for free money. Then thirdly, by
22 requiring and by putting it in the form of stock the company has
23 to produce and provide a return on the expectations that the
24 company will repay that investment when the company is able
25 to buy back that stock, sell it and provide a return to the

1 Tobacco Commission. That's the reason we do that.

2 MR. NOYES: Not to the Tobacco Commission.

3 MR. ROGERS: I'm sorry, the grantee.

4 MR. NOYES: To the Foundation. Let me take you
5 back in time for a minute. We asked applicants for R&D to tell
6 us how they might recover funds that would then be available to
7 continue research and development activities and it would be
8 returned to the Commission, although we didn't require it.
9 This Committee has adopted no policy for a right or wrong way
10 for that to happen. What Mr. Rogers and the Southwest Higher
11 Ed Foundation did, they just went ahead and did it with the
12 benefit accruing to the Foundation and committed for R&D
13 purposes. It doesn't flow back to the Tobacco Commission for
14 you to make decisions at your discretion. The money would
15 flow back to the Foundation that independently could award
16 R&D projects. I'm not saying this is a bad way to go about
17 recovering money, and I'm not saying that at all. What Ed has
18 done is effectively to the extent that the equity that the
19 Foundation has produces some revenue for use in R&D. You
20 haven't adopted a policy that said this is okay and this is what
21 we want done. You might say, yeah, that's a good structure, if
22 there is revenue return it to the Commission and this
23 Committee will then decide based on the competitive process
24 where the funds go. The Committee hasn't acted at all, but we
25 were asking for ideas, and the Foundation went ahead with

1 what it is they wanted to do, not what you said you wanted to
2 do.

3 MR. ROGERS: In the revenue return proposal that
4 was submitted in the application we said here is our proposal
5 and if the proposal doesn't meet this Committee's criteria then
6 the Commission would hold the stock. It really doesn't matter,
7 because the Foundation's idea was to hold it as a fiduciary for
8 the Commission. We think it does make a lot of sense for the
9 Commission or the Foundation to be in the role of a stock holder
10 as opposed to handing out free money.

11 DELEGATE MARSHALL: Isn't that a discussion for
12 another day, Madam Chair? The discussion today is do we
13 approve the proposal or don't we approve it. What you want to
14 do is not, we're not required to do that. I think it might be a
15 good idea, but again, I don't think that's before us today the way
16 I understand it.

17 DELEGATE BYRON: Does that answer your
18 question? Any other questions or comments on these
19 applications before us today?

20 Mr. Giles, thank you very much.

21 So based on the scoring system, we have three that meet
22 the criteria that we used in the past for approval.

23 DELEGATE MARSHALL: I move that we approve
24 Applications 2697, 2698 and 2699.

25 MR. HAMLETT: Second.

1 SENATOR RUFF: And Application 2700 is
2 separate?

3 DELEGATE BYRON: 2697 and 2698.

4 MR. HAMLETT: Second.

5 DELEGATE BYRON: Any further discussion? All
6 those in favor say aye? (Ayes.) Opposed? (No response.).

7 DELEGATE MARSHALL: I move we approve 2699.

8 MR. OWENS: Second.

9 DELEGATE BYRON: Any discussion on that?

10 MS. THOMAS: One clarification, the budget
11 indicates that Tobacco Commission funds would be used for
12 equipment and a detailed list is provided for the fund detail
13 section as that funds may be reallocated to other expenses as
14 business needs are identified. That requires approval by the
15 Committee?

16 MR. NOYES: Yes.

17 DELEGATE BYRON: Any other clarification or any
18 other questions or comments? So we're approving 2699. All
19 those in favor say aye? (Ayes.) Opposed?

20 SENATOR RUFF: No.

21 DELEGATE BYRON: Mr. Stephenson.

22 MR. STEPHENSON: Yes, Madam Chair. Middle to
23 late last week we received a new application and we were not in
24 the middle of a grant cycle and there was no deadline that we
25 set, but this application arrived and it was communicated that

1 Staff would see it and at least discuss it today. It's from Region
2 2000 Research Institute, and the application is before you. If
3 you don't have a copy Stacey has some.

4 Madam Chair, we have just gotten this like a day ago, and
5 we really haven't had a chance to read and dissect this, nor has
6 it been sent to VEDP for vetting, so it is before you today for at a
7 minimum some discussion for consideration.

8 DELEGATE BYRON: I'm familiar with the
9 application along with Secretary Carter and Tim and met with
10 them to discuss this, and it was my understanding this is
11 timely, and the reason it's before us is timing is critical that we
12 address it now. I'll let Tim address some of the details.

13 MR. PFOHL: B&W, as you recall, has been funded
14 previously through the R&D program as well as the Reserve
15 program to further develop their mPower nuclear reactor
16 system, a modular small unit, that B&W has been extremely
17 successful in getting U. S. Department of Energy money to
18 develop and deploy this. The Center for Advanced Engineering
19 and Research in Bedford has been a pretty significant test
20 facility that's one of the anchor facilities, and B&W is operating
21 that. The request is to add a new element of research, that's
22 the CAER in Bedford. The Hot Flow Test Loop, and that's a
23 facility that's going to be required for and Regulatory
24 Commission approval with an mPower system. It's a project
25 that could go out of state, and there are B&W facilities in at

1 least one other state that could have this project in this facility
2 at a lower cost to get it operating. The request is to construct a
3 building for CAER, owned by CAER, and designed solely for use
4 in the hot flow testing. B&W has proffered 12 new engineering
5 positions at 90 thousand a year, or average salaries of 90
6 thousand. This first phase request for \$2 million would help
7 construct a building adjacent to the CAER facility to be owned
8 by CAER.

9 A second request is anticipated once the building is ready
10 and up and running and the equipment, and we expect B&W to
11 be back for \$2 million towards equipment for the hot flow
12 testing. The proposal is that B&W will invest \$8 million of its
13 own money, and there is very substantial committed federal
14 funding for the operation of the test flow facility. Doug Lee is
15 here to talk about that and can answer your questions. There
16 is a timing issue, and I think Doug could address that more
17 accurately than I could.

18 MR. LEE: Thank you. My name is Doug Lee from
19 Babcock & Wilcox, and I'm glad to be here to address you all.
20 The timing issue is critical. In nuclear space we have to go
21 ahead and be able to because of a license with the Regulatory
22 Commission, scheduling this license application in September
23 of 2014. The testing that the hot flow testing will accomplish is
24 in support of the review of that application by the Nuclear
25 Regulatory Commission. The equipment we're proposing to

1 test in this facility performs a very important safety function in
2 the reactor design itself. Therefore, we need to get this facility
3 built and get the test data in place and have that data in time for
4 the actual rendering of the judgment by the Nuclear Regulatory
5 Commission. That judgment is expected to be three years from
6 date of application. So you can project that out into 2017.

7 To build the facility and get it up and running with the
8 equipment in there, not only doing the initial safety testing but
9 longer term operability issues with this equipment, the
10 schedule fits, but it's extremely tight. That's why there is a
11 sense of urgency in getting all these funds committed, designs
12 completed and the facility up and running.

13 DELEGATE BYRON: I'd like to add to the
14 Committee members to kind of help put this in perspective.
15 The Center for Advanced Engineering and Research is one of
16 our research centers that has been our success story, and I
17 think this is an excellent choice in going forward with the
18 research and things that are being done there, seeing the
19 outcomes from that. B&W's reactor is the only application
20 nationwide that was accepted for that grant proposal.

21 How many million dollars was that?

22 MR. LEE: The original amount of money authorized
23 by Congress was 450 million, and they originally intended to
24 award that to two applicants. B&W was the only applicant that
25 successfully met the criteria in the grant, so presumably B&W

1 would be eligible for up to half of that 450 million. The
2 Department of Energy has already awarded over \$100 million
3 for this.

4 I also think it's important to point out that this grant is for
5 an engineering effort for capitalization. We use the grant
6 money to do the test work subsequent to building the facility,
7 but we can't use the DOE funding for capital activities in
8 building this facility.

9 DELEGATE BYRON: The money is still being used,
10 or the monies that will be used to continue this research which
11 has a completion date of 2022, this is something that's going to
12 be solid within our community.

13 The other thing that is important to understand is that
14 competition is out there, and we're in a very competitive
15 situation here, going to one of their other facilities, and we had
16 to try to close the gap to keep it here. In the long term this may
17 not just be hot flow test loop and what it brings to this project
18 but the additional things that are going to keep it within arm's
19 reach to compete for as the potential for a lot of jobs in the
20 future. When you look at it, you have to look at the full vision
21 that is out there before us and the investment we're making in
22 continuing with that prospect.

23 Does anyone have any questions?

24 SENATOR RUFF: Question about the timing. We
25 got this a few days ago and Mr. Giles has a letter of support for

1 it.

2 MR. LEE: I can explain that. We were prepared to
3 submit earlier an application, that's why Mr. Giles got the letter
4 in July. Our executives wanted to hold off, and we're
5 struggling with the original concept of the grant and the number
6 of manufacturing jobs involved. And in essence, the executive
7 action, we had to retool the concept set forth in the proposal in
8 the application, and that's why there was a time lapse in terms
9 of submitting it.

10 SENATOR RUFF: I didn't really hear an answer as
11 to why.

12 DELEGATE BYRON: Neal was working on this back
13 in July.

14 MR. NOYES: Senator, yes, I was at that meeting,
15 and it was urgent that a decision be made and that there was a
16 July 30, I believe, drop-dead date. Mr. Giles was at that
17 meeting as well. There are multiple phases that B&W intends
18 to do. One of the elements was to a follow-on manufacturing
19 facility. You'll recall that the Chair and I sought a special
20 meeting several weeks ago, and it was anticipated at that time
21 that application would be ready for your review. It was not,
22 because senior management decided that they could not make a
23 commitment to follow-on. They went through their process for
24 that. We got it after senior management had made its decision.
25 We got the application, as Tim said, last week. That's the

1 explanation, and we thought this was going to be before you
2 whenever that meeting was in early August.

3 MR. HAMLETT: Absent the Staff making a positive
4 recommendation to the Committee, are there items in here that
5 cause heartburn or are there red flags? Absent a positive
6 recommendation, is there anything in there that gives pause to
7 the Staff recommending funding now?

8 MR. PFOHL: I was involved in meetings early in the
9 summer and then again more recently. This probably would
10 have been in our hands a few weeks earlier, the local
11 government and B&W working out the terms of an agreement
12 for the locality to put up the building. I think at this point
13 having a building that is adjacent to the CAER, owned by CAER,
14 dedicated for research purposes is probably the more logical
15 solution anyway. I can't recall a single circumstance where
16 any grantee, R&D or otherwise, would stand in front of us and
17 say, we have \$100 million-plus committed with federal money to
18 conduct testing in this facility. So no red flags that I'm aware
19 of.

20 MR. OWENS: Once they build it they'll spend \$100
21 million doing research in that facility?

22 MR. PFOHL: Some portion in that building.

23 MR. LEE: The Tobacco Commission would not be
24 asked to provide any funding for the testing; that would be
25 provided by B&W and the DOE. The DOE grants are 50/50

1 cost share anyway, so we invest money also in the tests.

2 MR. OWENS: You said you anticipate asking the
3 Commission for another \$2 million down the road?

4 MR. PFOHL: Most likely in the next R&D offering.

5 DELEGATE BYRON: With the potential opportunity
6 for commercialization.

7 MR. OWENS: Twelve jobs initially for the first 2
8 million and how many after that, twelve jobs for 4 million?

9 MR. LEE: Twelve jobs for the program which
10 includes the Phase I grant for the building and a Phase II grant
11 for equipment. The twelve jobs are associated with the
12 engineering work and support of the equipment as well as
13 providing the operating staffs to be in a position to operate the
14 plant. I would point out our track record with the IST is that
15 we committed to 12 jobs and we have over 20 people at the IST
16 working. There still is a potential. The model we defined in
17 the application is entirely consistent with the model we used to
18 make the IST a reality. That facility is operating extremely well
19 and providing exceptional data on behavior and personnel. It's
20 an incredible success story and a wonderful example of the
21 public/private partnership. We bring people into that facility
22 literally from all over the world, and it's putting Bedford County
23 in Central Virginia on the map. It's a well-publicized,
24 world-wide factor with the presence of that facility and the work
25 it's done.

1 I would add that B&W has spent over \$300 million on the
2 project and probably will spend hundreds more even with the
3 DOE grant. The mPower program has been going for about
4 four years, and of that over 300 million that has been spent a
5 hundred million of that has already found itself in the Central
6 Virginia community. I might add the majority of our employees
7 do live in Bedford County. The county is already benefiting,
8 and this really is the next step in bringing the mPower project to
9 reality.

10 SENATOR RUFF: You would understand, Mr. Lee,
11 that it took the corporation a while to make this decision, and it
12 would be only fair that this Committee should not be expected
13 to make an immediate decision.

14 MR. LEE: Yes, I can appreciate that.

15 DELEGATE MARSHALL: The suggestion is not to
16 take it up today but have a special meeting of the R&D
17 Committee in Southwest Virginia.

18 DELEGATE BYRON: I don't have a problem with
19 that if that makes the Committee more comfortable.

20 SENATOR SMITH: Representing some of the cities
21 in the County of Bedford, and if you proceed with this, and
22 being someone who represents some of the people and just
23 popping it in today I've heard nothing and there's some record
24 that goes back to July but I've heard nothing about this and my
25 office is open every day and available. I'm not sure how the

1 omission occurred, it may be well and good, but I would like to
2 ask this. The question is with these many millions of dollars
3 invested in research and if no money came out of the Tobacco
4 Commission what would we lose? Would the whole thing not
5 happen?

6 MR. LEE: No, the need for the testing is significant,
7 and B&W would most likely locate the test facility in a different
8 state.

9 SENATOR SMITH: Did I hear that you've already
10 committed, so there's ongoing testing now in Bedford?

11 MR. LEE: Yes, sir. We built a prototype of the
12 mPower plant at the CAER in Bedford County. We invested
13 over \$20 million of B&W money. The Tobacco Commission
14 gave three grants, a little over \$10 million investment in Bedford
15 County. Right now the CAER is over \$30 million, and that
16 work is ongoing as we speak.

17 DELEGATE BYRON: I think it's important that you
18 realize that he mentioned that there are other facilities that are
19 quite capable of their own facility of doing this work and the
20 executive powers would make that decision.

21 SENATOR SMITH: I would hope that we, probably
22 get the fact that just bringing this on, nothing in this industry is
23 expected to happen in one day, so we shouldn't be expected,
24 maybe take it up at the next meeting.

25 DELEGATE BYRON: Just so you are aware, this is

1 time-related, and the second phase is something that you're
2 very familiar with. We have had applications that have come
3 before us like this without going through vetting and some of
4 the other processes. We're capable of having a meeting and the
5 Staff can figure out that one before we meet; we're having
6 another meeting in a week, and we can find something the day
7 before when everyone is there, if that would work for the
8 Committee members.

9 MR. HAMLETT: Would the previous grant, and you
10 referred to it as a model of the ultimate reactor?

11 MR. LEE: Yes, actually a working prototype.

12 MR. HAMLETT: From previous grants that funded
13 that, are there contingencies that ultimately if a full facility to
14 manufacture this device is built that it will be built in the
15 footprint?

16 MR. NOYES: No, Butch. B&W made it clear that
17 fabrication and assembly of the components was likely to
18 happen outside the footprint. Rather what they committed to
19 in the initial round for the prototype project is to hire 100
20 engineers to be based in the Lynchburg/Bedford area working
21 on this project, and exceeded that well within the time frame.
22 So there was follow-on investment. The idea was to enhance
23 the nuclear clusters in Virginia and get some of it approved
24 within the footprint, and they were very successful in doing
25 that. There is no commitment to manufacturing operations

1 related to the mPower plant.

2 MR. LEE: As a matter of fact, we hired 200 people in
3 the Central Virginia region working on design. We view this
4 hot flow testing as kind of another jewel in the Central Virginia
5 area making Central Virginia a world-class of excellence as far
6 as the technology.

7 DELEGATE MARSHALL: What's the average salary
8 of the engineers?

9 MR. LEE: Engineers and technicians, it's 90
10 thousand a year, annual. These are highly trained and highly
11 skilled folks. We've had to work hard to get them here.

12 DELEGATE BYRON: Thank you, very much.

13 MR. PFOHL: For clarification, schedule a meeting
14 on the 25th or 26th to revisit this?

15 DELEGATE BYRON: Yes, we'll be together then.

16 Next on the agenda we have Ned.

17 MR. STEPHENSON: Yes, Madam Chair. Sarah
18 Capps has a repurposed grant made to one of the R&D centers,
19 and she'll present that.

20 MS. CAPPS: For Grant No. 1831 for the Institute of
21 Advanced Learning and Research in Danville, their operating
22 grant, or the R&D Committee provided funding to each of the
23 five R&D centers. We received a request from the Institute to
24 repurpose the balance of the funds in their operating agreement
25 to support construction and related costs of the Syntex

1 building. The current balance is \$296,037.39. The
2 Committee has approved a fifth-year extension for all of those
3 R&D operating grants through July of 2014. We met with the
4 Institute, and they have committed covering the operating costs
5 for their building from their operating funds that are available to
6 them.

7 For their construction grant you all provided \$8 million for
8 construction. We closed out that grant and we received a final
9 report from them, and there was a balance of 50 thousand on
10 that grant and that construction grant ended in July. That
11 balance has been de-obligated and returned back to the
12 Commission. Those funds are no longer available to them, and
13 that is supported by this repurpose request.

14 MR. NOYES: They're going to submit a request in
15 writing to repurpose it.

16 MS. CAPP: We have the request.

17 MR. NOYES: You and I talked about that and our
18 Chair with the Executive Director, but if you want to do it in
19 front of the Committee that's fine.

20 MR. PFOHL: We're talking about 40 percent plus
21 the original 750 thousand, repurposing to that extent best be
22 approved by the Committee.

23 MR. OWENS: Is that within the purview of the
24 original grant?

25 MR. PFOHL: The original R&D operating grant was

1 750 thousand, and we're supposed to help those organizations
2 those first few years. The capital needs in the Syntex building,
3 ILAR, they used this balance of nearly \$300 thousand for some
4 capital needs of the building, some additional space and work
5 on the ventilation system. We're getting a long life asset out of
6 this.

7 MR. OWENS: They're willing to spend their own
8 money to do the operations?

9 MR. PFOHL: Yes.

10 MR. OWENS: Madam Chair, I'd like to make a
11 motion that we allow them to do it.

12 DELEGATE MARSHALL: I'll second.

13 DELEGATE BYRON: All in favor say aye? (Ayes.)
14 Opposed? (No response.)

15 MR. STEPHENSON: Madam Chair, this is a matter
16 that I need to make the Committee aware of. This is in the
17 interest of full disclosure, and I'll be as brief as possible, but
18 there is a little history that you need to know.

19 We have been somewhat trapped in a cycle relative to the
20 grant agreements for R&D grants. The history is that in early
21 2010 when the R&D program began we engaged an outside
22 counsel to draft a standard agreement for us, and they did, and
23 you approved some grants and sent that grant agreement out.
24 Many of the grantees that received that agreement did not like
25 it, for one reason or another unique to that company, and they

1 didn't want to sign it. In short, we said this is the deal, take it
2 or leave it. They lobbied against that and influenced the
3 Committee and Commission for us to sit down at the table,
4 which we did, and to negotiate and redraft that grant
5 agreement. We would send that out to the next grantee and
6 they would not like it for a different reason than the first one
7 didn't like it, and then they would lobby for that to be changed
8 and we would reenter counsel, and we have been trapped in
9 that situation now for about three years. We've spent a right
10 good piece of money with counsel in writing these agreements,
11 and even as recently as this past May down in South Hill. You
12 may remember we had a county that was not satisfied and
13 influenced us to rewrite the agreement. Each time an
14 agreement gets rewritten to overcome an objection from a
15 grantee it's fairly clear to me that it dilutes the original
16 agreement. We have a grant agreement that was recently
17 written in May by newly-appointed counsel at the instruction of
18 the Staff and several Commissioners. It's eloquent, it's
19 well-written, and it's a good piece of work. There are still many
20 people, including some of us insiders, who believe that this
21 grant agreement does not serve the best interest of the Tobacco
22 Commission and especially the R&D Committee and the R&D
23 efforts.

24 I bring this before you to say that we're not settled on the
25 terms of our R&D grant agreement. We've been through this

1 iteration four or five times, and it's not resolved yet. So I'm
2 really looking to the Committee for some instruction or direction
3 as to whether we should move forward with the latest version
4 that we worked out with counsel for these grants or whether you
5 want to stop and reconvene a sub-group to go at it yet again.

6 We have three grantees today who have won a
7 recommendation that will likely be approved next week and they
8 will be eager to receive a grant agreement, and absent any
9 instruction this is the agreement that we have to send them.
10 So, I think you get the point. So I'm looking for some guidance
11 and wanting to make sure that you are aware of this.

12 DELEGATE BYRON: So we have grant agreements
13 and each of the individual grantees have lawyers that have an
14 issue with some point within that agreement. The one thing
15 that I know that our discussion revolved around was as to
16 whether or not we continue to be flexible and review and change
17 these grant agreements to meet the desires of the client or
18 consider that when they apply for a Tobacco Commission grant
19 in the very beginning they sign a form that says I've read the
20 grant agreement and I agree with it or I will not apply unless I
21 understood that. I'm not going to make any changes, or what
22 I'm saying is that they've read the agreement before they applied
23 and agreed to it.

24 MR. NOYES: We've done that.

25 DELEGATE MARSHALL: I'd just say that in the past

1 we didn't have the agreement until some of the Staff
2 recommendations came in working with Mr. Giles and then
3 said, here's the agreement, the agreement came after. Then we
4 had the agreement beforehand. So, I would agree with you,
5 that here it is and if you want to play ball with us these are the
6 rules, if you don't want to play, go somewhere else; that is until
7 I get a grant, being facetious.

8 DELEGATE BYRON: We did try something new, and
9 when they applied for their grant they were informed to read it,
10 and I will abide by it without any changes.

11 Neal, did you want to add to that?

12 MR. NOYES: Yes. That referred to the lobbying
13 process; this is my moment to lobby this Committee. In the
14 last week during a series of site visits of R&D grantees I
15 identified something that you don't know about in this new
16 grant agreement. By way of background, previous grant
17 agreements had a performance period as to when the research
18 was going to get done before commercialization. The
19 performance agreement might be a year or two years or three
20 years, 36 months. The performance agreements, those are the
21 quarterlies that you see when you review the applications and it
22 says we'll do this and we'll do that, and that's the performance
23 agreement. The development period, that period when
24 commercialization has to take place within the Tobacco
25 Commission footprint. The new agreement and the one you

1 have that's out there now, there's only a 36-month provision.
2 If someone had a 36-month performance agreement period to do
3 the research, the day that's over they can leave the Tobacco
4 Commission footprint, no matter what they said in the
5 application about what the commercialization potential was. I
6 would urge that we have a change that applies across all grants
7 that says you have 36 months after the performance period or
8 after that period where the Tobacco Commission funds are
9 being used for research to have those commercialization
10 outcomes take place before you're free to leave. I would word it
11 like it was in the old application. Thirty-six months from date
12 of last disbursement, from the date of the agreement.

13 MR. STEPHENSON: Date of approval. Two
14 different things. Have it 36 months from the date of the last
15 disbursement. The reason for the last disbursement is a
16 date-certain. We know the date is certain, we know when we
17 got the final report, and we know all the matching funds are in
18 place, and that locks down the R&D beneficiaries to 36 months
19 and a 36-month period after they finish the research that you
20 agree to pay for. That's not the way the current agreement
21 reads. It's an easy fix which lies across the board, and then if
22 they don't like it they can apply to somebody else. Otherwise
23 you're diluting the commercialization potential of research that
24 you're funding.

25 So I would ask that there be an instruction from the

1 sub-committee to make that change to the agreement that Ned
2 is talking about. Not a particular beneficiary or particular
3 grantee specific, but it's a change across the board.

4 MR. OWENS: Do we have grants right now that are
5 being disbursed that we don't have a signed agreement on?

6 MR. STEPHENSON: No, sir. We do have two R&D
7 grants who have not yet signed the agreement nor have they
8 been disbursed. All others have been signed.

9 MR. OWENS: Will we have legal counsel when we
10 have the meeting?

11 MR. PFOHL: Mr. Ballou was not available today.
12 He will be at the Commission meeting.

13 MR. OWENS: I would feel more comfortable with
14 counsel present.

15 MR. PFOHL: Mr. Ballou or Ms. Gilliland from
16 Christian Barton, one of the two will be present.

17 MS. THOMAS: What is it that you feel most
18 uncomfortable about?

19 MR. STEPHENSON: Cindy, I am not unlike the rest
20 of the folks that read this agreement in that I have some
21 thoughts and feelings about it too. Mine are different from
22 everybody else's, and so are theirs. Everyone that sits at the
23 table with this agreement has their own plan about what it
24 ought to say and what it ought not to say. In three years we
25 have not yet come to a consensus of what the agreement should

1 say. There are some large elements in the agreement, such as
2 whether or not the grantee is responsible for outcome of this
3 grant. That was taken out recently, and they are not. We
4 have some elements in here about whether the intellectual
5 property should be pledged to the Commission; that was in the
6 earlier agreement and it has been taken out. I'm not saying it
7 should or should not, I'm just saying these are big issues and
8 we just can't get settled. It's not a material fact that we have
9 run up a sizable legal bill sitting at the table with counsel
10 grinding on this agreement for three years and can't seem to get
11 it straight.

12 DELEGATE BYRON: Have you ever been before the
13 Courts of Justice Committee in the House?

14 MR. STEPHENSON: I expect it's about the same,
15 but yes, just can't get it straight. Meanwhile, grants are going
16 out the door and these agreements. I don't want this
17 Committee to be deceived about what's out there. We have
18 several versions of the agreement out there.

19 DELEGATE MARSHALL: Madam Chair, may I
20 suggest that we, taking Neal's comments, that we ask counsel to
21 come back to us at our next meeting and give us the legal side
22 and ask, as in the General Assembly, to highlight the important
23 version. In the General Assembly when they change the law, it
24 gives us highlights so we can pick it up pretty easy.

25 DELEGATE BYRON: I think it's important to add to

1 that too, and we have contracts and if they're signed and we
2 have made multiple changes trying to make it appropriate to
3 what we're doing. I don't mean to put any fear in anyone, but I
4 think we have a good contract; it's just that people come before
5 us and lawyers want to change things and coming back to us for
6 corrections. I don't think it's something everyone has to sit
7 here and be concerned at and if something we wanted hasn't
8 been part of the grant agreement. I think it's just that they
9 want something that is the same for everybody. It hasn't been
10 that way. If we get our attorney involved, and I think he was
11 involved at the last couple of meetings that we had, our attorney
12 has looked at the last couple that we had and a few questions
13 from the grantees in regard to signing this agreement. I think
14 when our attorneys come to speak to us they can give us their
15 general opinion on our agreement, and if they highlight every
16 single part of that agreement there may be areas of contention,
17 if that's what you want to do. If you want it from them,
18 certainly we can ask for that. I just want you to be aware that
19 I don't think there was something that was done improperly
20 when it comes to the contract.

21 MR. STEPHENSON: I will ask counsel to be
22 prepared at the September 25 or 26 meeting. That's all I have,
23 Madam Chair.

24 DELEGATE BYRON: Neal.

25 MR. NOYES: Last week I visited three grantees,

1 three R&D grantees with Sarah Capps. There are some
2 questions about progress or matching funds or that sort of
3 thing. Project 2320, IALR, the bio-fuel. The concern with that
4 one was that the IALR had permission from this Committee for
5 any IP made available for use of research outside the footprint.
6 IALR owns the IP, and they understand they must do that. The
7 particular company has a plant in North Carolina, and the
8 concern was they might want to use the IP and develop it using
9 your money at that location without our knowledge or
10 permission. That is resolved.

11 Another beneficiary wishes to use two other feed stock
12 components to the research. This is also with IALR, which has
13 to do with the bio-pharmaceuticals. What's not clear to IALR is
14 that those feed stock plants would be grown in the footprint so
15 there would be no particular benefit to the agriculture sector,
16 which is part of the original application. They've asked for a
17 revised business plan. You'll probably hear about that one at
18 your next meeting. The revised business plan is due in
19 October because it would constitute a change in scope and we'll
20 get a new business plan and work it out later.

21 Another one had to do with the use of Tobacco
22 Commission funds for raw materials, and that matter is
23 completely resolved, and using it for demonstration purposes,
24 not for commercialization. It wasn't clear in the
25 documentation Sara had received.

1 In Floyd County with BC Genesis, a second grant has been
2 approved, and there is this ongoing discussion between the
3 beneficiary and the county's Economic Development Authority
4 on lease arrangements. The beneficiary has intended or
5 indicated they'd be signing a lease for space, and unresolved. I
6 want to point out there will be no disbursement on this project
7 until the contract or agreement is executed with the beneficiary
8 county and the Commission, and that's not going to happen
9 until they resolve these issues, so the project could be delayed.

10 The last one was NanoQuantics and meeting with Virginia
11 Tech, and it's a complex situation on that particular project,
12 although it's on schedule and meeting all of its match funds,
13 and a hold-up in disbursements simply because Ms. Williams
14 hasn't been able to get the documentation that the Staff
15 required, but gives us full comfort that matching funds are
16 being spent consistent with the intent of the project. They
17 have refused to provide documentation for several months that
18 Sara had asked for. Sara is going to visit with them tomorrow
19 after our meetings tomorrow and will show exactly what it is,
20 and that project will be then ready for disbursement. The
21 company or the beneficiary may be the grantee they want to
22 change the location for the project. The installation they're in
23 is not suitable for their purposes at this time. It will take a long
24 time to bring it up to standards, so we'll be revisiting that one
25 probably in January when they change the project location.

1 The project is really, really an interesting one. There are just
2 some outstanding issues that need to be resolved.

3 Also, there is another project, all these are on schedule
4 and that's the good news, and all the budget issues are either
5 resolved or getting resolved. There are normal changes that
6 grantees tend to want. Another one we visited down there,
7 that's Dan River Business Center, that project is way ahead of
8 schedule and under budget right now, and I've talked with
9 Sarah about that. Maybe to do a bus tour of these places I
10 think would be a good idea because there is really some fine
11 research that is going on. I'll turn that over to Tim to make
12 those arrangements.

13 That's all I have right now.

14 DELEGATE MARSHALL: Madam Chair, when a
15 locality or company comes to us and they do everything exactly
16 right to their proposal but that company sells to another
17 company, do our requirements require them to obligate the next
18 company to jump through all the hoops that we required of the
19 first grantee?

20 MR. STEPHENSON: The sale of the company does
21 not negate the contract that we have. That contract is with the
22 company before the sale and it's with them after the sale. Now,
23 if it's an asset sale and they sell out the assets there's nothing
24 left with the company with whom we had our transaction; and
25 that's possible, but it depends on how it's structured. That's

1 something the lawyer can look at and bring it back to our
2 attention.

3 MR. NOYES: We actually have that situation, and
4 that would have to be referred to counsel. There is nothing in
5 writing, thinking about somebody that's interest in buying it,
6 what's the next step. I'll have counsel get back with your
7 attorney and see what your obligation is, and there are two
8 different things that can happen. If the original company is in
9 that development period they can't do it without permission of
10 the Commission, and that's the way I understand it. I'll have to
11 ask an attorney.

12 MR. STAFF: If we know it.

13 DELEGATE MARSHALL: If it's an asset, and in the
14 case I'm thinking of, when they're buying that asset it's really
15 our asset. They trying to sell our assets to somebody else.

16 MR. STEPHENSON: If we know it, and we don't
17 have means by which we learn these things. It's an honor
18 system, so we have to find out in order to enforce.

19 DELEGATE BYRON: All right. Any more
20 discussion? Do we have any public comment?

21 MS. MARTIN: Thank you for letting me share this
22 with you. We did two R&D projects four years ago, and both of
23 the agreements had a three-year development period, or after
24 the company took the money, at least three years after. Your
25 new agreement that went out in May does not have that. One

1 of our beneficiaries right now has done everything possible to be
2 able to, a Phase II award from you all. We have not signed it
3 because we are concerned they will leave the very moment that
4 they can because they're being pursued by a suitor. So in our
5 case we would ask for not a diluted grant or security agreement,
6 because the very core of what I think we're both trying to do is
7 create Economic Development in the region, and your
8 investment is in R&D and not just R&D jobs for one or two
9 years, but that would lead to commercialization jobs which is
10 the greater number of jobs over what's going to happen. We
11 heard before one or two jobs now and another three jobs now
12 and twelve jobs now, but the real opportunity comes a few years
13 down the line. So I would encourage you in the very near term
14 in putting that development period back in there, because that's
15 what protects not only you all but the grantees in the
16 communities, which is what we're really trying to accomplish.

17 DELEGATE BYRON: Thank you.

18 MS. MARTIN: Even if you want to pick on us and
19 put it back in ours we'll be very happy, especially in the near
20 term we would appreciate it.

21 DELEGATE BYRON: Anyone else, public comment?

22 MR. STEPHENSON: Madam Chair, would you be
23 prepared to set a grant deadline in anticipation of vetting to
24 occur before the January meeting?

25 DELEGATE BYRON: We were looking at a date of

1 November 1.

2 MR. PFOHL: Our pattern has been to take
3 applications in October and when your Committee meets in
4 early December we can have a Staff summary and you can
5 decide whether to send them to vetting. I'd suggest something
6 in the second half of October for an application due date and the
7 December 6 date probably more as a Committee meeting.

8 MR. STEPHENSON: Vetting to occur after January.

9 DELEGATE BYRON: This gives the Staff a chance to
10 look through it.

11 MR. STEPHENSON: The date is what?

12 DELEGATE BYRON: Maybe November 1, does that
13 work?

14 MR. PFOHL: That's fine.

15 DELEGATE BYRON: If there are no further
16 comments, then we'll adjourn the meeting.

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18 PROCEEDINGS CONCLUDED.

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1 CERTIFICATE OF THE COURT REPORTER

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3 I, Medford W. Howard, Registered Professional
4 Reporter and Notary Public for the State of Virginia at large, do
5 hereby certify that I was the court reporter who took down and
6 transcribed the proceedings of the **Virginia Tobacco**
7 **Indemnification and Community Revitalization**
8 **Commission Research and Development Committee**
9 **Meeting when held on Monday, September 16, 2013 at 1:00**
10 **p.m. at the Sheraton Roanoke Hotel & Conference Center,**
11 **Roanoke, Virginia.**

12 I further certify this is a true and accurate transcript,
13 to the best of my ability to hear and understand the
14 proceedings.

15 Given under my hand this 5th day of October, 2013.
16
17
18

19 _____
20 Medford W. Howard

21 Registered Professional Reporter

22 Notary Public for the State of Virginia at Large
23

24 My Commission Expires: October 31, 2010.

25 Notary Registration Number: 224566