

1                   **TOBACCO REGION REVITALIZATION COMMISSION**

2                   701 East Franklin Street, Suite 501

3                   Richmond, Virginia 23219

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9                   **R & D Committee Meeting**

10                  Monday, May 23, 2015

11                  3:00 P.M.

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                  The Harvester

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                  Rocky Mount, Virginia

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1 **APPEARANCES:**

2 The Honorable Kathy J. Byron, Chairman

3 The Honorable Charles W. Carrico, Sr.

4 Ms. Mary Rae Carter, Special Advisor for Rural Partnerships

5 Ms. Rebecca Coleman

6 Ms. Kathy Lowe

7 The Honorable Daniel W. Marshall, III

8 Mr. Dale Moore

9 The Honorable Edward Owens

10 The Honorable Frank M. Ruff

11 COMMISSION STAFF:

12 Mr. Evan Feinman – Executive Director

13 Mr. Chris E. Piper – Deputy Executive Director

14 Mr. Timothy S. Pfohl – Grants Program Administration

15 Director

16 Ms. Stephanie S. Kim – Director of Finance

17 Ms. Sarah K. Capps – Grants Program Administrator,

18 Southside Virginia

19 Ms. Jessica Stamper – Grants Assistant, Southwest Virginia

20 Ms. Jordan L. Butler – Public Relations Coordinator

21 Ms. Stacey Richardson – Executive Assistant

22

23 COUNSELS FOR THE COMMISSION:

24 Ms. Elizabeth B. Myers, Assistant Attorney General

25 Richmond, Virginia

1 DELEGATE BYRON: I'm going to call to  
2 order the meeting of the Research and Development  
3 Committee and I'll ask Evan to call the roll.

4 MR. FEINMAN: Delegate Byron?

5 DELEGATE BYRON: Here.

6 MR. FEINMAN: Senator Carrico?

7 SENATOR CARRICO: Here.

8 MR. FEINMAN: Ms. Coleman?

9 MS. COLEMAN: Here.

10 MR. FEINMAN: Ms. Carter?

11 MS. CARTER: Here.

12 MR. FEINMAN: Ms. Lowe?

13 MS. LOWE: Here.

14 MR. FEINMAN: Delegate Marshall?

15 DELEGATE MARSHALL: Here.

16 MR. FEINMAN: Mr. Moore?

17 MR. MOORE: Here.

18 MR. FEINMAN: Delegate Morefield? (No  
19 response.) Mr. Owens?

20 MR. OWENS: Here.

21 MR. FEINMAN: Senator Ruff?

22 SENATOR RUFF: Here.

23 MR. FEINMAN: You have a quorum,  
24 Madam Chairman.

25

1 NOTE: WHEREUPON THE MINUTES OF THE FEBRUARY 22,  
2 2016 MEETING ARE DISCUSSED BRIEFLY AND BECAUSE  
3 OF SOME ERRORS, IT IS DECIDED THAT MR. FEINMAN  
4 WILL REVIEW IT AND MAKE CORRECTIONS AT A LATER  
5 DATE.

6

7 DELEGATE BYRON: Then we'll go ahead  
8 and move along. We've got a lot to discuss. Evan?

9 MR. FEINMAN: Any changes to the  
10 applicant eligibility, I think a lot of these are for the simplest  
11 thing to do might be to quickly summarize what we talked  
12 about before and the staff has come up with a couple of  
13 proposed guidelines for the true directions that have  
14 previously been contemplated. This Committee after a  
15 number of different discussions in which the Committee  
16 looked at the prior vetting process and looked at how the  
17 applicant pool for the R&D projects how it might be whittled a  
18 little bit before we throw the doors back open. Asked staff to  
19 develop guidelines for follow-on funding for prior recipients  
20 grants from this body and to explore the possibility of  
21 matching or complementing SBIR grants that are received  
22 from the federal government to good or eligible grant  
23 applicants within our Tobacco footprint. We've done that, 28  
24 and 29 and we talked about those. However, I thought just to  
25 lay the groundwork even though it's a little further down on

1 the agenda that it might make sense and just get a quick  
2 overview of what our partners at CIT are doing and give the  
3 full Committee an opportunity to ask any questions about the  
4 SBIR programs and we do not have their level of expertise  
5 about.

6 DELEGATE BYRON: I just wanted to add  
7 to that for anyone who wasn't at the Richmond meeting, we  
8 were at a turning point I guess you could call it with our R&D  
9 project and the process we went through for vetting and the  
10 contract that we had with the Virginia Economic Development  
11 Partnership and it came for our renewal period and we lost,  
12 unfortunately, one of the chairs that used to handle that for  
13 us and we were at a point where we were looking for other  
14 possibilities for a means of vetting proposals that came before  
15 us.

16 We were also looking at a dwindling  
17 balance in the R&D Committee. So there were a lot of things  
18 taking place that brought on all these discussions but  
19 ultimately the need because of R&D projects out there and  
20 someone to come before us to try to get to the point of a final  
21 decision. So this is the point right here and now. Then we  
22 asked staff to come back today and I hope we can make some  
23 decisions going forward and give some direction to applicants  
24 that want to come to the Tobacco Commission for assistance  
25 for R&D funding and be able to go forward for our next round

1 and opening up some opportunities in that regard. So with  
2 that the SBIR you heard some initial comments at our last  
3 meeting about that and we're at the point now that Evan has  
4 designated so we'd like representatives from CIT to come  
5 forward and I hope you're prepared to speak to us about this  
6 program. And just I'd like to say congratulations to Bob's  
7 daughter who got married over a year ago and a grandbaby  
8 that will be coming this fall.

9 MR. STOLLE: Due in June. I'm  
10 absolutely delighted to be here today so thanks for having us;  
11 we're glad to offer any help we can.

12 MR. FEINMAN: Let me just clarify this.  
13 He asked me to prepare a full detailed presentation and I told  
14 him we didn't need a full and detailed presentation, so we  
15 wanted a question and answer session.

16 MR. STOLLE: The agenda says speaker  
17 but we wanted to provide a couple of minutes of two programs  
18 that we have at CIT to focus on SBIR. Our goal in all of our  
19 programs is to work very closely with other stakeholders and  
20 other resources throughout the Commonwealth to get the  
21 biggest bang for a buck in the investments we make through  
22 our programs. So we're delighted to have an opportunity to  
23 speak with you and potentially work with the Tobacco  
24 Commission on SBIR.

25 Rob Brook, who is our real expert on

1 SBIR and that's what he does full time but unfortunately he  
2 couldn't be here today. He's at an SBIR conference. Tom  
3 Weithman, the Vice President of CIT, directs the federal  
4 assistance program that Rob runs and he can provide more  
5 information about that specific program.

6 I'd like to mention just a sister program  
7 that we have also that branches into SBIR and that's the  
8 Commonwealth Research Commercialization Fund. Two of  
9 the categories that determine eligibility are SBIR and SDTR,  
10 phase one or phase two awards. We have those awardees.  
11 They are in industries and research areas within the eligible  
12 industries and research areas and that particular solicitation  
13 and they can apply for up to fifty thousand dollars in grants.  
14 It's not an automatic grant at all and they're competing with  
15 all the others.

16 We just finished the 2016 solicitation and  
17 focused on cyber security and life science data analytics and  
18 energy. We had 28 applications under the SBIR side. They go  
19 into the same evaluation process that all the other applicants  
20 do. We had 240 applications for \$3.4 million this year. Out of  
21 the 28, we only made nine awards on the SBIR side. It is  
22 extremely competitive. For our vetting process, we do or we go  
23 through a level of screening at CIT and make sure that the  
24 applicants are eligible. We have a group of nearly 200 subject  
25 matter experts that go over the applications and the

1 proposals. Because they are so technical in nature, we very  
2 quickly can find yourself over your head with some of these  
3 applications. So we route them to the subject matter experts  
4 who have specific knowledge of those areas.

5                   Once those evaluations scoring is done,  
6 our proposals go to the research and technology investment  
7 advisory committee. That is set by statute, the folks from the  
8 research universities, then VEDP president and appointees  
9 from the house and senate, governors and they review these  
10 and make the recommendations.

11                   The SBIR, they are a great source of  
12 proposals and a great pipeline for the CRCF program and in  
13 many cases they're not the most competitive. We have  
14 proposals coming directly out of the research universities,  
15 directly out of startup companies from all across the  
16 Commonwealth. We have had nine CRCFs in the Tobacco  
17 Commission area. Just two applicants in the last solicitation  
18 as well.

19                   Now, I'd like to ask Tom to talk briefly  
20 and if anybody has any specific questions, I'd be happy to  
21 answer them. I think Tom can talk more to the topic that you  
22 are interested in. I think he was down in Danville a couple of  
23 weeks ago and you saw a little bit of what he does to assist the  
24 applicants for the SBIRs and maybe Tom can spend a little  
25 time talking about Rob's work and then we'll be happy to

1 answer any questions.

2 MR. WEITHMAN: Thanks, Bob. We  
3 started this federal assistance program at CIT for the fast SBA  
4 program about nine years ago. We tried to maintain  
5 leadership of this process across the Commonwealth involving  
6 about 200 companies a year in various ways in trying to go  
7 after funding for the SBIRs and SDTR program and other  
8 federal funding programs.

9 We're very bullish on the SBIR and that's  
10 been a tremendous money source for the Commonwealth of  
11 Virginia and consistently ranked about third in the nation in  
12 terms of the SBIR awards after California and after  
13 Massachusetts. Two-thirds of the awards in the  
14 Commonwealth come from DOD and DOD is a significant  
15 player providing \$1.2 billion a year in federal funding to small  
16 businesses around the country.

17 I'm in charge of the federal funding  
18 program that CIT works very closely with Robert on this  
19 program and we have an advantage of having worked with  
20 SBIR in a couple of different capacities. Certainly in  
21 management of that program and as serving as the evaluator  
22 for NSF, SBIR applications. And then finally, as fund  
23 manager. And our guidelines are pretty effective at getting  
24 these funding opportunities started and in companies in  
25 which we have invested.

1                   By way of a little more generally what we  
2 do with federal funding and Robert can tell you about the  
3 educational work he has done and what it is we do each year.  
4     Robert holds seminars throughout the Commonwealth and he  
5 has them coming up this year in Northern Virginia and the  
6 Tidewater area and Blacksburg. We were in Charlottesville  
7 and then you joined us in Danville a few weeks ago for an  
8 outreach program there. We can bring in experts and  
9 representatives of the federal government program to raise the  
10 visibility of this program for small businesses throughout the  
11 Commonwealth.

12                   We provide webinars at various locations  
13 and different topics. We'll introduce federal funding programs  
14 and managers of those programs from all of the eleven  
15 agencies during the course of a year or even a two-year cycle.  
16 We will highlight their solicitations as they become available.

17                   Then we have a very minor scholarship  
18 program where we can help entrepreneurs' startup companies  
19 who have not written SBIRs in the past to increase their win  
20 probability by taking advantage of the skills and expertise  
21 from people who have done this work and with companies on  
22 a current basis. This involves or had involved about 200  
23 companies a year and we're very proud of that record and  
24 want to help and work anyway we can with the Tobacco  
25 Commission. I'll be glad to answer any questions you might

1 have.

2 DELEGATE BYRON: There's a lot of  
3 things that are a refresher with subjects that we are  
4 discussing. Originally we started talking about the SBIR, it  
5 was somewhat to take place of the vetting process that we had  
6 in place or any process that R&D did. As you can see in the  
7 guidelines, we were talking about companies that were already  
8 successful and received a phase one grant because then they  
9 would have gone through that vetting process and that was  
10 the idea. We still have to have the discussion on how this fits  
11 into a partnership with those individuals coming back to the  
12 Tobacco Commission. Before we get there, I wanted to know  
13 what your average grant is, how long it takes to get approval  
14 and talking about SBIR in general.

15 MR. WEITHMAN: Our average grants in  
16 support of SBIR are small, five hundred to fifteen hundred  
17 dollars and it's a fairly quick approval process. These are  
18 used to provide educational resources to companies. We have  
19 a fully qualified consultant that works with companies that  
20 have good records and helping companies to win proposals.  
21 We'll help to buy down the cost and help to find out the cost of  
22 working with those consultants, if you will reimburse the costs  
23 to work with that consultant that proposal will be submitted.  
24 We do not match nor do we attempt, we don't have funding to  
25 match the actual SBIR dollars.

1 DELEGATE BYRON: When people come  
2 to you for five hundred or fifteen hundred dollars in funding?

3 MR. WEITHMAN: We work each year  
4 through a variety of arrangements in this programs, some of  
5 which are educational and some has educational consultants.  
6 Most of the companies come to us and work with us through  
7 one of the educational programs. We'll work with ten to  
8 twenty companies a year in terms of providing that  
9 scholarship.

10 DELEGATE BYRON: That would be  
11 different than a research or an R&D project.

12 MR. STOLLE: The grants we make  
13 through the CRCF are capped at fifty thousand. Each of the  
14 grants come in requesting fifty thousand. But each one of the,  
15 or to be not eligible, say you're approved for phase one or  
16 phase two SBIR or SDTR. On some occasions we will get the  
17 SBIR that are contingent on the CIT match, not necessarily for  
18 the dollars but it's kind of an endorsement of the technology  
19 and the innovation.

20 MR. FEINMAN: The size of the actual  
21 SBIR grant can run from what to what?

22 MR. STOLLE: The size of the SBIR grants  
23 phase one I think the DOD grants 100 to 150K, and could  
24 reach five or six hundred or phase two NIH would go a little bit  
25 bigger, maybe 300 phase one, 750 maybe phase two. There's

1 no funding at the phase three level and that's an unfunded  
2 event and commercialization can happen in several ways. If  
3 someone is working with a contracting agency like DOD, that  
4 is to say that if the SBIR funding comes in the form of a  
5 contract, the end goal is to have the end product  
6 commercialized or rolled into a federal government grant or  
7 program. And that would be a phase three win. If the  
8 technology is developed to a sufficient maturity it would be  
9 rolled into a program. Other agencies like NIH and NSF and  
10 that's involving sales to a commercial customer.

11 DELEGATE MARSHALL: I'm kind of  
12 confused here. Do you understand what the R&D Committee  
13 has done for the Tobacco Commission in the past?

14 MR. STOLLE: Not fully, no.

15 DELEGATE MARSHALL: How does that  
16 square peg fit in this round hole?

17 MR. FEINMAN: Let's try to shed some  
18 light on this. The SBIR program at its core is a tiered program  
19 offered by a variety of different federal agencies that try to take  
20 first an idea and then a possible actual, available commercial  
21 concept through phase one and phase two out in the  
22 marketplace. That marketplace might be an actual contract  
23 with that agency or the marketplace at large. Our partners at  
24 CIT do a lot of things to support the application process. I'm  
25 sure most folks here are aware the federal government is

1 pretty byzantine and not always easy to deal with particularly  
2 for somebody like a startup who maybe has not engaged with  
3 a complicated federal agency before. So therefore what their  
4 program can do is either try to match a little liquidity that a  
5 company may have through CRCF while they're in the SBIR  
6 process or through their education work to connect them to  
7 someone who's an expert in helping people get the grant.

8                   So what I was proposing that we do and  
9 this was an idea that emerged out of our conversations with  
10 stakeholders and other people who have engaged with us  
11 before is to kind of substitute our prior vetting process for this  
12 federal government process. If the feds have already looked at  
13 it, this is a viable and commercializable idea or technology and  
14 it gives them a phase one, which is to say they've already  
15 cleared that hurdle and have drawn down some federal  
16 dollars, then they can submit to us and work with CIT to  
17 make sure that they try to do a good job. They can submit to  
18 us a proposal and say here's our project and phase two and  
19 they might be asking the feds to provide five hundred  
20 thousand and they might say they have this two hundred  
21 thousand dollar gap that the federal grant will not cover even  
22 if we get it and can you support us with that portion of the  
23 project budget. Then we would look at that like the grant  
24 team looks at projects right now and try to fill holes and try to  
25 make them as strong as we can. This is a pretty robust

1 process and they can look into things and say do you need  
2 this or why this or this makes sense that doesn't. Then we'd  
3 make a recommendation for a match award or not to this  
4 Committee and we'd go through it like we do our other  
5 programs and matching. That's the core of the SBIR.

6 DELEGATE MARSHALL: I think Robert  
7 mentioned earlier that and I heard several different categories  
8 one was energy and one was cyber security et cetera. When  
9 R&D first started and we couldn't be all things to all people so  
10 we, would we still stay on those same tracks that we had been  
11 in the past or are you going to change that?

12 MR. FEINMAN: We certainly could. As  
13 it's written right now, it does not include those tracks but if  
14 that's the controlling policy then that's what we would do. My  
15 understanding that the number of SBIRs coming out of our  
16 region is probably modest enough that we could kind of throw  
17 it open and see what happens. And then if we had rounds  
18 where there was a lot of activity we could begin to narrow it  
19 down. I have a feeling that by following this track, we get the  
20 companies we get.

21 DELEGATE BYRON: I wanted to respond  
22 to that and we've been on this Committee a long time you and  
23 I and we're still very much focused on commercialization and  
24 jobs that come as a result of that. Certainly some of the  
25 things they are dealing with and they are giving us some of the

1 examples of some of the education ones you do and maybe not  
2 leaning toward commercialization unless it's software or some  
3 kind of company that's going to get into something different.  
4 R&D, research and development I would think our guidelines  
5 would stay generally the same.

6 MR. FEINMAN: There needs to be a  
7 business plan with the creation of the company.

8 DELEGATE MARSHALL: The rule for us  
9 is about jobs.

10 SENATOR RUFF: When you say  
11 education, you're talking about filling out the form or are you  
12 talking about education –

13 MR. WEITHMAN: We're talking about the  
14 education of finding a source of funding in the federal  
15 government in these programs, their interest in individual  
16 companies and making a compelling application and strong  
17 commercialization type companies.

18 SENATOR RUFF: That's the way I  
19 interpreted it when you referred to education. Now, these  
20 things are vetted, what is the success rate? Not with you all  
21 but overall this program?

22 MR. WEITHMAN: The success rate as far  
23 as the instance of commercialization and technology, there's  
24 really not good data on that. The feds don't have good data.  
25 There is no method for tracking commercialization outcomes

1 with SBIR. So the bulk of the information on that is  
2 anecdotal. Companies will advance to phase one and then to  
3 phase two and then have to jump that next chasm so they can  
4 get to commercialization. The SBIR is extremely useful in  
5 terms of advancing the technology it provides a vetting and a  
6 validation and certainly does provide a level of this ability for  
7 the company that wouldn't otherwise exist. It also provides,  
8 and this is valuable for companies that seek to seek to sell to  
9 the federal government in building sole source justification  
10 and selling to the federal government. I cannot give you data  
11 on commercialization coming out of the SBIR program.

12 SENATOR RUFF: I see a lot of value in  
13 using their expertise but I certainly would be concerned about  
14 turning it over or the vetting over to and we all complained  
15 about the vetting but turning it over to federal folks could be a  
16 black hole and I'm not sure that I would buy into that.

17 DELEGATE BYRON: I don't know if this  
18 brings any clarification to the discussion but there was a  
19 gentleman named Doug, somebody that spoke at our last  
20 meeting that used it and very familiar with SBIR and we  
21 discussed it as a venue. I do appreciate CIT coming and  
22 speaking with us but it being a vetting process that still ended  
23 up coming to the staff and taking a look at it at the second go  
24 around and based on what they received back and of course, I  
25 think that still would end up being an initial process that

1 would get evaluated and once we got through an application  
2 that even made it to that point. First of all, they have to go  
3 out and get approved for SBIR grant in the first place, then  
4 come into the Tobacco Commission and make an application  
5 and go through a vetting process with the staff and then come  
6 to this Committee and go through a vetting process with us.  
7 And if we don't feel comfortable based on what we hear and  
8 the first one with what the federal government is done we  
9 could only just say no. I think it was just another avenue but  
10 not hiring somebody else on to do that process again.

11 MR. FEINMAN: That was the key here.  
12 There are folks out there that have a well-respected program  
13 who are doing the technological vetting that we don't have on  
14 the staff or on the Commission in general the expertise to do.  
15 We can still do the business plan and whether it fits into our  
16 priorities and whether it makes sense to everybody here but  
17 you're getting the feds to kind of cover the tab on the highly  
18 technical portion of it. The goal that I interpreted the  
19 Committee to have was to find a cheaper way to do it.

20 DELEGATE MARSHALL: The way we  
21 have done this in the past and so we do an application and  
22 those applications would not necessarily be accepted by us,  
23 the first step is them and then it would come to us?

24 DELEGATE BYRON: First step is them?

25 DELEGATE MARSHALL: Sorry.

1 DELEGATE BYRON: First step is the  
2 applicant.

3 DELEGATE MARSHALL: The applicant  
4 and then it would go to CIT.

5 DELEGATE BYRON: Not necessarily. I  
6 don't know that every applicant will go through CIT. I think  
7 they're giving us their experience with the program.

8 DELEGATE MARSHALL: I'm talking  
9 about our procedure going forward.

10 DELEGATE BYRON: Our procedure  
11 going forward is that an applicant would come to us based on  
12 the guidelines and submit an application to us and already  
13 had gone to and received SBIR grant.

14 DELEGATE MARSHALL: So they would  
15 have had to have received an SBIR grant and then we would  
16 look at them and then they could always vet them.

17 DELEGATE BYRON: Federal government  
18 has vetted them.

19 DELEGATE MARSHALL: Then we would  
20 have used that vetting information, the staff would use that?

21 MR. FEINMAN: Yes. The goal here is to  
22 have the federal government handle the technological stuff  
23 and that side of it and does it make sense to scientists et  
24 cetera. Our partnership with CIT would be primarily informal.  
25 People often approach us and we would wind up directing

1 them into a program that makes sense. There's other funding  
2 and resources that exist. Sara and Sarah are often in close  
3 communication with applicants well before we receive the  
4 formal application. We certainly would direct companies that  
5 are interested in an SBIR program to CIT to take advantage of  
6 their expertise and the programs they have. After they get a  
7 phase one, that's when they would become eligible to come in  
8 front of us for a match on the steps that are supposed to take  
9 them from concepts, which we're not funding to  
10 commercialization, which is where we would be matching or  
11 complement. And that's the goal here.

12 DELEGATE MARSHALL: You were first  
13 talking about that there were cyber security grants and energy  
14 grants. Do you have different types of grants only or you don't  
15 fund anything it's just certain types of grants that you do each  
16 year or does that change year to year?

17 MR. STOLLE: We have the research and  
18 technology roadmap, strategic roadmap that identifies  
19 industries in the Commonwealth and the Commonwealth in  
20 general on research and the private side as well. Within those  
21 eleven industries, each time we have a solicitation for the  
22 CRCF, we work with the secretary of technology to identify  
23 what are the targeted industries and research areas we're  
24 going after right now. This last time around it was analytics,  
25 security, life sciences. We concentrated on a series of

1 research areas. Now, when we sent the letters out, we notified  
2 each concerning the solicitation and let them know that these  
3 are the industries and here are the categories you can apply  
4 for. Applications came in for all five of those industries and  
5 research areas from university researchers and from private  
6 sector and also from labs and the awards were made, we had  
7 a separate bucket of money for each one. They shared the  
8 \$3.4 million for this year's solicitation.

9 DELEGATE MARSHALL: I think I also  
10 heard from you have about 200 companies a year that –

11 MR. STOLLE: We had 140, 230  
12 applications this year, made 48 awards. We've trained 200  
13 companies pursuing SBIR.

14 DELEGATE MARSHALL: Then you've got  
15 48 companies that received awards?

16 MR. STOLLE: I need to separate what  
17 Tom is talking about, which is our federal assistance program  
18 and we work with people looking for federal grants and train  
19 them for SBIRs versus the program I'm talking about, which is  
20 the Commonwealth Research and Commercialization Fund.  
21 That has categories for making awards to SBIR phase one and  
22 two recipients.

23 DELEGATE MARSHALL: That's about 48  
24 a year?

25 MR. STOLLE: We had a total of 48 and

1 we're limited by funding \$3.4 million, not by the number of  
2 awardees.

3 DELEGATE MARSHALL: Was the 48  
4 companies or companies and universities?

5 MR. STOLLE: It's a combination. There's  
6 the national fund portion of it and the commercialization. It's  
7 a combination of grants to university researchers and  
8 companies but it's all about commercialization. The  
9 companies are in a very early stage, proof of concept stage  
10 precedes that typically. It's about half and half between  
11 researchers and companies.

12 DELEGATE MARSHALL: Of the 48, do  
13 you have an idea how many would have been in the Tobacco  
14 Commission footprint?

15 MR. STOLLE: Within the 48 or within the  
16 applications we had this year, we only had two applications  
17 that came out of the Tobacco footprint. In the last four years  
18 we made about or about eighteen applications out of the  
19 footprint and from that we've had nine awards and the nine  
20 awards accounted for almost a million dollars. About a  
21 million of it came out of the footprint and that's about a fifty  
22 percent rate.

23 DELEGATE MARSHALL: Of those nine,  
24 what type of businesses were they?

25 MR. STOLLE: Typically for the awards

1 within the footprint was a business that we made four awards  
2 to that were projects that were proposed out of the CARE  
3 center in Bedford.

4 DELEGATE BYRON: Nanotech?

5 MR. STOLLE: I believe it was. We had  
6 four that went to CARE and two out of Southwest Virginia  
7 Higher Education Center and two projects came out of the  
8 Southern Virginia Higher Education Center.

9 DELEGATE BYRON: Doug, would you  
10 come up for a moment? Thank you very much. You spoke to  
11 us at the last meeting about the SBIR grant. Did you get one  
12 or are you familiar with it or the company that did?

13 MR. CORRIGAN: I'm Doug Corrigan,  
14 director of the Technology Institute and was at that time  
15 director of the Southern Virginia Product Center which is  
16 basically a business incubation program in Halifax County,  
17 startup companies in the region, manufacturing and those  
18 type of industries. We were supporting a lot of startup  
19 companies.

20 In my former life, I was running a  
21 biotechnology company and we did apply and receive an SBIR  
22 award and that's how I became familiar with the program and  
23 then I started helping other companies apply for and receive  
24 those awards.

25 DELEGATE BYRON: Do you see where

1 someone would come to the Tobacco Commission looking for  
2 different grants that they offer for research and development  
3 and seeing these guidelines where it says if they could get  
4 funding if they had an SBIR previously first grant and if they  
5 would know where to go or will they need assistance?

6 MR. CORRIGAN: Can you restate that  
7 question?

8 DELEGATE BYRON: Are most people  
9 familiar with the SBIR grant process or will this be something  
10 that can be utilized on conjunction with the Tobacco  
11 Commission and are there enough people aware of the SBIR  
12 program or do they need the assistance of groups like yourself  
13 or CIT in order to get to that point?

14 MR. CORRIGAN: It's a very well-known  
15 research program. It's been successful and been around since  
16 1980s. Every federal agency has to spend two and a half  
17 percent of their extra budget on SBIR grants. And it's been  
18 around for decades. Billions of dollars pumped into this  
19 program every year and there's some mandatory requirements  
20 set forth by law by Congress. Many companies are aware of  
21 the program. They'll fund companies and when they say a  
22 small business that means up to five hundred employees.  
23 Small business in their definition could be a very large  
24 business to the Tobacco Commission. It's well-known  
25 throughout the university system and there's a lot of



1 they're going to receive a phase two, which should be up to a  
2 million dollars and will last for a two year period of time.

3                   At that point, the company is usually  
4 faced with what they call the value debt. At that point, the  
5 company has expended all their funds for phase one and is  
6 waiting to hear if they're going to get phase two. Some states  
7 have put together programs that allow a company to apply for  
8 gap funding if they're in between a phase one and a phase  
9 two, they can get a hundred thousand or something like that  
10 and can bridge the gap between phase one and phase two.  
11 Therefore, the company has funds to operate during that  
12 transition. About fifty percent of companies that get a phase  
13 one grant go on to get a phase two. If they've met the  
14 requirements of phase one, they'll probably get the phase two  
15 grant.

16                   What we talked about in previous  
17 meetings were companies that were finished with phase one  
18 and successfully demonstrated the technology works to the  
19 proof of concept level and then being eligible to come to the  
20 Tobacco Commission and get follow on funding phase one into  
21 the phase two. There's a lot of different ways to figure that;  
22 either a one to one match or some other methodology there  
23 and that's what they need. They have to face that gap and  
24 sometimes they'll need additional funding that phase two  
25 provides. Phase two will fund the operational costs but will

1 not fund infrastructure like a new lab or a building. The  
2 Tobacco Commission likes to fund hard assets that can  
3 remain in the region. So the Tobacco Commission comes  
4 alongside the company and says we'll fund the hard assets  
5 that are going to stay in the region and we'll let the federal  
6 government fund the operational costs. It makes for a good  
7 collaboration between the two.

8 DELEGATE BYRON: Any questions?  
9 Mary Rae?

10 MS. CARTER: Doug, I'm curious about  
11 the applicant. When they apply to the SBIR, do the  
12 businesses or is it required they weigh heavily whether or not  
13 they have a partnership with the universities in their  
14 research?

15 MR. CORRIGAN: That can help, certainly  
16 SBIR help, SDTR is required. So for an SBIR grant award,  
17 they can take thirty percent of their grant and give it to a  
18 university to help them with the research. An SDTR, they  
19 have to partner with the university and spend a minimum  
20 level of dollars with the university. The SBIR program is a  
21 bigger program and more well-funded than SDTR. For every  
22 SDTR grant, there's probably, every five SBIR there's probably  
23 one SDTR grant.

24 MS. CARTER: Do you find that with  
25 SBIR that the companies that have been awarded grants do

1 have a partnership with the university for research?

2 MR. CORRIGAN: No, there's a lot of  
3 companies that don't and it's not a rule of thumb that holds  
4 true. There are a lot of companies that are out of universities  
5 that take advantage of the SBIR but there's plenty of  
6 companies that never partner with the universities.

7 MS. CARTER: Thank you.

8 DELEGATE BYRON: In your experience  
9 and the ones you've worked with have any of them gone to  
10 commercialization?

11 MR. CORRIGAN: Yes. I don't have  
12 statistics on that and SBIR is something you can get your  
13 hands on is successful commercialization percentage that  
14 would be great to have that information. It's highly successful  
15 by Congress because every year they keep funding it and they  
16 keep modifying it to be more heavily weighted to  
17 commercialization. When the program first started, the  
18 program was really big R little D and over the years they've  
19 changed the law such that it's more toward commercialization.  
20 In fact, when you submit an SBIR application, you have to  
21 provide them with a commercialization plan and it's weighted  
22 very heavily toward your score and they provide you funding  
23 in your grant of \$10,000 or so that you have to spend on a  
24 consulting company that will help you with your marketing  
25 plan and business plan and commercialization. It's becoming

1 more and more weighted toward companies that will actually  
2 take their product to commercialization rather than using the  
3 program as a way to fund the research.

4 MS. COLEMAN: There's been two phase  
5 one SBIR grants and one phase two SBIR grant that's been  
6 very successful and full commercialization. I do have a  
7 question. We're looking at companies that have been  
8 scientifically vetted in order to receive a phase one SBIR grant.  
9 They've gotten through the SBIR processing and believe they  
10 would be in line for phase two and that's coming up. But my  
11 question to you is, is the availability of matching funds to get  
12 you through the gap, is that a criteria in being successful for  
13 an SBIR applicant? Is that considered at all?

14 MR. STOLLE: In phase one they don't  
15 really look at that and they don't ask a company if they have  
16 funds to get them through the gap and they don't provide  
17 those resources a lot of times. So companies are left on their  
18 own to figure that out and what that means and investors are  
19 putting in their own money. On a phase two, CIT can  
20 probably help a little bit and this is the most current way that  
21 applications are being configured. There is a weighting in the  
22 scoring where companies have commitments from either  
23 investor dollars or commercial partners that put money and  
24 resources into the project and they list those on the  
25 application and they get a higher score as a result of that. I

1 don't think there's any requirement for them to have any of  
2 their own funds to get the grant.

3 MS. COLEMAN: Are they more  
4 competitive?

5 MR. FEINMAN: I believe the program in  
6 Danville did. It makes it a stronger phase two applicant if you  
7 have resources because that's what they're looking at, how  
8 likely are you with your business plan to succeed and more  
9 capital is better.

10 MR. CORRIGAN: It could be that when  
11 companies are nearing the end of their phase one that they  
12 would approach the Tobacco Commission in preparation for  
13 the phase two and get some type of informal commitment that  
14 would allow them to apply for the phase two and mentioning  
15 that in the grant that the Tobacco Commission could be a  
16 potential source of funding to receive phase two.

17 DELEGATE BYRON: Thank you very  
18 much.

19 SENATOR RUFF: I'd like to wrap this up  
20 so I understand it. We would continue with the proposed  
21 guidelines for any continuing project funding but for any new  
22 proposal it would have to go to the SBIR, is that where we are?

23 DELEGATE BYRON: We haven't gotten  
24 to –

25 SENATOR RUFF: Let's make that

1 assumption, are we closing the door except –

2 DELEGATE BYRON: That's what has  
3 been discussed, an alternative. We need a vetting process.

4 SENATOR RUFF: I understand that but  
5 Evan talked about one or two projects, which gave me a little  
6 concern that we have one door now and we're going to close it  
7 halfway and I just wanted to clarify that, are we all fully aware  
8 of that.

9 MR. FEINMAN: At the point that and we  
10 haven't really addressed it. The number of programs coming  
11 out of the Commission's footprint right now only represents  
12 purely indigenous holding companies that were designed and  
13 started under the SBIR finish now. If we had a matching  
14 program that said research and development done in our  
15 footprint purely indigenous holding companies that were  
16 started under an SBIR. If we had a matching program that  
17 said research and development done in our footprint and  
18 commercialization in our footprint exists that's an incentive  
19 that companies from all over would take seriously and use as  
20 a reason to move into the region among other things.

21 DELEGATE BYRON: With that, I guess  
22 we can quickly go through the guidelines and understand a  
23 little bit more about what we're trying to do and determine if  
24 that's something we want to at least try in the next round  
25 depending on the kind of applications we get in and move on

1 from there. Otherwise, we don't have a venue at all. So right  
2 now, do we want to go through this quickly Evan?

3 MR. FEINMAN: Bottom of page 28  
4 starting with proposed SBIR funding guidelines. This  
5 Committee would accept applications for funding from eligible  
6 applicants or our broader funding guidelines that have already  
7 applied for and successfully received a phase one SBIR grant  
8 from a federal agency. The proof of concept stage is then  
9 completed. The company has applied for a phase two SBIR  
10 grant related to the same project and that's a continuation of  
11 the earlier approved project. That the company has a  
12 business plan that includes a project budget and a plan for  
13 commercialization of their product or process and that would  
14 be the key thing that the staff would look at. You have to have  
15 a way to turn this thing and proof of concept into a business  
16 in the region. Then this company's research and  
17 commercialization activities are located within the footprint.  
18 Those would be the prerequisites for getting in front of us and  
19 then we'd ask for the following conditions for grants or loans,  
20 or we may. The company's business plan clearly identifies a  
21 gap which Commission funding can fill and it's not just extra  
22 money beyond what they need, it has to be a clearly identified  
23 need. And that the company agrees that any future  
24 commercialization of the project will occur within the Region  
25 or any grant will be repaid in triple and that's as to our prior

1 agreement.

2 SENATOR RUFF: Would staff or say an  
3 ABC company comes to the Commission, would staff  
4 encourage them to talk to CIT about training them how to fill  
5 out the form?

6 MR. FEINMAN: A company that is not  
7 already hear and as Ms. Coleman shared and some other  
8 people, we have folks in the region who have gone down this  
9 road. If somebody came to us what we would say is yes, you'd  
10 need to prove your concept to the federal government and we  
11 have a state partner that can help you do that and then we  
12 would point them to CIT. So the answer is yes, we would  
13 welcome additional applications.

14 DELEGATE MARSHALL: Do we need a  
15 motion? Well, in the past we have talked about this and we've  
16 never got about us being an equity partner with some of these  
17 groups. Have you thought about us doing that or as a loan?

18 MR. FEINMAN: We're going to be talking  
19 about the strategic plan tomorrow that will include a policy  
20 that projects that generate adequate revenue to service debt  
21 and the answer really would be a loan. If a company is under  
22 the impression they can generate revenue and the business  
23 plan indicates that then the loan would be with, of course the  
24 Committee can make a grant or loan at its discretion.

25 The equity question was one of the first

1 things I really tried to attack when I came to the Commission.  
2 We had a couple discussions about what is legal and not  
3 legal. It is not legal for us as I understand it, to take an equity  
4 stake in a business operating in the Commonwealth. What we  
5 can do is formulate an agreement like a loan, a repayment  
6 agreement or something else with favorable terms. In  
7 addition, we can do things like we'll help you do your research  
8 but if you commercialize outside of the region you will have to  
9 give back triple what we gave you. While not an ideal outcome  
10 give us a little more resources than when we started.

11 DELEGATE BYRON: Does that answer  
12 your question?

13 MS. CARTER: Before we go further, I'd  
14 like to make sure I understand. If we have an application  
15 come in, the new application will have gone through the SBIR  
16 process and if they receive funding then they come to us when  
17 they get ready to receive phase two SBIR, is that correct? We  
18 don't start from scratch anymore?

19 DELEGATE BYRON: Right, after they've  
20 gotten their first award, they are aware or they are eligible  
21 then or an eligible applicant for phase two funding probably  
22 with the same scope that they would have in mind before  
23 going back for their SBIR phase two funding as well.

24 MS. CARTER: The criteria for them  
25 getting applicants is that they must come to us with a phase

1 one SBIR?

2 DELEGATE BYRON: That's correct and  
3 you bring up a good point I didn't think about. Most of the  
4 SBIR funding if they're looking at us for phase two would also  
5 be looking for federal funding. They're coming to us for gap  
6 funding or complement that or whatever the reason may be.  
7 So I would think that they have already or they're getting  
8 ready to apply or they've already applied for phase two.  
9 Maybe that ought to be part of that criteria if you want to  
10 consider that they have applied and it could have been the day  
11 before but they applied for phase two funding.

12 MR. FEINMAN: That is one of the  
13 requirements, they have applied for phase two and phase one  
14 is they have applied and received and then they come to us  
15 and they have applied for phase two.

16 MS. CARTER: Would we be limiting the  
17 applicant in the Tobacco Region because I don't know if this  
18 true and I'd ask Doug if he could answer this, do these  
19 innovations, do they have to be applicable to something that  
20 the federal government would be able to use?

21 MR. CORRIGAN: Yes and no. Every  
22 federal agency has their own program, Department of Defense,  
23 National Institute of Health and NASA and National Science  
24 Foundation. When they talk about SBIR grants provided as a  
25 grant or a contract, the agency that is contracting there are

1 agencies that are grant agencies. The National Institute of  
2 Health, the National Science Foundation, they are granting  
3 agencies. In those instances, those companies are coming up  
4 with the idea themselves, mostly a commercialization product  
5 and they're asking for the funding and they get it. Probably  
6 the federal government is not going to be the customer of that.  
7 Contracting agencies like DOD and NASA are looking for very  
8 specific technologies that will be on some kind of platform  
9 whether it's a warship or aerial fighter or something like that  
10 and they need a specific product. They'll issue a contract to  
11 do the research on that through the SBIR program with the  
12 understanding that the company will then turn around and  
13 sell the product to the federal government. In a lot of  
14 instances, they will encourage them to take the product and  
15 bring it to the commercial market as well. They want to sell it  
16 not to just them but to other commercial markets. I think I  
17 stated that correctly.

18 MS. CARTER: If someone in the Tobacco  
19 Region applies for an SBIR grant then more than likely they  
20 will be in the business of producing something that something  
21 in the federal government would be interested in?

22 MR. CORRIGAN: No, only if they're  
23 applying to the Department of Defense or NASA, which are  
24 contracting agencies. Usually when they're applying to them  
25 there is a customer waiting at the end of that that wants to

1 buy the product from them. When they issue the SBIR to the  
2 agency, they have topics and they say this is what we're  
3 looking for. Usually those manuals are a few hundred pages  
4 thick and they list everything they want like NASA or DOD.  
5 The National Institute of Health, National Science Foundation,  
6 it's a different story. Usually the federal government is not  
7 going to be the customer for those grants.

8 MS. CARTER: Those are SBIR?

9 MR. CORRIGAN: They're all SBIR loan or  
10 contractor grant.

11 MS. COLEMAN: My question has to do  
12 with the time so at that point the applicant has already  
13 received phase one SBIR grant and comes to the Commission.  
14 Is it timely to wait until it's prepared to request a phase two  
15 grant to come to the Commission? Do they need to come prior  
16 or is that timely for the money, the beginning of the phase one  
17 grant.

18 MR. WEITHMAN: Are you proposing to  
19 do a phase two match?

20 MR. FEINMAN: It doesn't necessarily  
21 need to be a match. What's been proposed here is they  
22 submit a business plan to us alongside the phase two  
23 application for us to be gap fillers. They might ask us for  
24 more than they're asking the SBIR program and they might  
25 not.

1 DELEGATE BYRON: Sarah, what did you  
2 want to say?

3 MS. CAPPAS: I just wanted to provide a  
4 clarification related to this in the original contract. When this  
5 was initiated and we are talking about two different phases of  
6 funding, I think it's important to understand and I think  
7 what's causing the confusion is we're not making that  
8 distinction. When this was originally presented and I picked  
9 up on Doug's suggestion and it really focuses on us providing  
10 a match for phase two and not where the original focus was  
11 and that was for companies that were further along, closer to  
12 commercialization and it was entirely designed or intended as  
13 a program to attract companies to the region. You need to  
14 think about match for phase two recipients, kind of separate  
15 for a match that would be during this phase between the, that  
16 would be in the valley of death between phase one and phase  
17 two. The level of funding for those two areas are likely very  
18 different. The amount of money the company might need in  
19 that valley of death at the beginning of phase two similar to  
20 the fifty thousand that CIT provided through their CRCF  
21 program and that's what that funding was intended for. The  
22 amount of money for a company that has been successful in  
23 getting a phase two SBIR that would be necessary to propel  
24 them to commercialization and for us to have them come to  
25 our region might be the \$500,000 for the cost of the lab.

1 MR. FEINMAN: The key there is it's not  
2 necessarily a fixed match. And there is no particular reason  
3 to believe that a company's needs would be precisely double  
4 what the SBIR grant was. What we want to do is take a look  
5 at the business plan and see what the need is instead of  
6 arbitrarily saying we'll give you the exact same amount.

7 DELEGATE BYRON: But the point that  
8 she made that needs to be considered at the time of the  
9 application meaning when they receive the grant, the second  
10 phase two grant, that's what Sarah is suggesting.

11 MS. CAPPS; The original concept was  
12 provide a match for phase two and at the last meeting that  
13 seemed to evolve in conversations with CIT and then maybe  
14 there's a need for us to support the valley of death also and  
15 that in between phase.

16 UNIDENTIFIED: I tend to think the  
17 valley of death is between phase two and phase three.

18 MS. CAPPS: I don't know.

19 DELEGATE BYRON: That was the  
20 interpretation.

21 MR. CORRIGAN: Post phase two and the  
22 question about the timing of the letter of support. From our  
23 experience, going into a phase two and any letters of support  
24 or commitment is going to be regarded as validating with a  
25 true commercial partner or investor. If there is some sort of

1 relationship like selling to DOD as a condition for phase two,  
2 that could be meaningful, don't know if it means, but that's all  
3 useful as well. But the challenge facing many is the post  
4 phase two going to that commercialization phase three and  
5 whether there is a valid customer and selling to the federal  
6 government as opposed to a commercial customer.

7 DELEGATE MARSHALL: Let's go to page  
8 twenty at the bottom, I want to make sure I understand it. A  
9 company in the past that made applications and made a  
10 presentation to the staff and then staff would bring that before  
11 us and we would decide whether that would go to VEDP for  
12 vetting purposes. Now with this proposal, the company would  
13 have had to have applied and received phase one funding, so  
14 upon receiving phase one funding the assumption is they've  
15 already been vetted and that's where we go forward. Would  
16 we be able to see the outcome from that phase from SBIR or  
17 would we assume it's been vetted and it's approved and we go  
18 forward?

19 MR. FEINMAN: I don't know if we can get  
20 a vetting –

21 MS. SORBER: I hate to interject but I'm  
22 Karen Sorber from Micronic Technology. Every time you  
23 submit a proposal to the federal government for anything, you  
24 are entitled to a debriefing whether you win or lose. When  
25 we've lost we need a debriefing to understand where we are

1 and how we can improve for the next one. You could have a  
2 successful outcome and request a debriefing and make that a  
3 contingency upon your receiving that and you understood the  
4 risk and successes and what have you. The company  
5 shouldn't have any problem providing that to you.

6 DELEGATE MARSHALL: What about  
7 proprietary information?

8 MS. SORBER: Yes, that would be  
9 proprietary information.

10 DELEGATE MARSHALL: But it's a public  
11 domain.

12 DELEGATE BYRON: No, she's saying the  
13 applicant would be willing to share it with staff as proprietary  
14 information.

15 MR. OWENS: We're saying that  
16 considering only accepting applications that have been  
17 certified or vetted by and we know what the guidelines are for  
18 the vetting.

19 MR. FEINMAN: Yes, so what the  
20 Committee wanted to do was say we have a vetting problem,  
21 we need to solve it. So what we would do is when a company  
22 has already been vetted under the old process and gotten a  
23 grant and we could continue to fund them as their need  
24 requires. What we put forward for the SBIR vet in lieu of the  
25 prior vetting process is to say this is a company that is cleared

1 the proof of concept stage and we can talk about concerns  
2 that may have had but they've been approved and then we can  
3 say show us your business plan and we could then make a  
4 call based on the business plan for further information and for  
5 funding them through phase two and above a phase two. If  
6 there's needs that phase two can't cover or if they needed  
7 some special thing or specialized piece of equipment that we  
8 could purchase or the staff might say find a private investor to  
9 do this part of it and we'd make a contingent match upon  
10 receiving phase two. We'd have more flexibility if we link up  
11 with them in the phase two application process and support  
12 them during that valley of death number one or not based on  
13 their business plan and our educated judgment about where  
14 they are and what their needs are. I didn't want to make it to  
15 mechanical because you've still got to figure out what they  
16 need.

17 MR. OWENS: They follow funding from  
18 these other companies. What we've got to do is take reports  
19 they've given us and consider the new applications.

20 MR. FEINMAN: Yes.

21 DELEGATE MARSHALL: Are we going to  
22 have a floor as far as the amount we're going to look at?

23 DELEGATE BYRON: We have been told  
24 that the average grant was anywhere from \$100,000 – I  
25 thought in the second stage we were given some figures that

1 are still relatively a lot lower than what we were normally  
2 giving out. So we'll have to come up with that figure and we  
3 can do it right now if someone wants to do that, put an  
4 amount out there.

5 MR. FEINMAN: It's up to the discretion  
6 of the grant team that makes sense in the context of the  
7 company's business plan.

8 DELEGATE BYRON: We have to have  
9 something to go by, we've always done it. In fact, we had a  
10 ceiling out there.

11 DELEGATE MARSHALL: I think you also  
12 have to have a floor.

13 MR. PFOHL: Currently it's at the \$2  
14 million limit R&D grants. That might be quite a bit high for  
15 SBIR phase two match.

16 DELEGATE BYRON: We talked before  
17 that it was pretty generous in our grant process, probably  
18 lower than that, too. I would say maybe a million.

19 SENATOR RUFF: They said they started  
20 around six hundred thousand and it seems to me maybe a  
21 half a million makes more sense.

22 DELEGATE BYRON: For a ceiling? What  
23 are you starting at the base?

24 SENATOR RUFF: I don't have any  
25 problem with a little.

1 DELEGATE BYRON: You don't want to  
2 have a hundred applications for the staff to deal with either.

3 MR. FEINMAN: Maybe fifty thousand?  
4 That's something some companies need.

5 DELEGATE BYRON: Fifty thousand base  
6 up to five hundred thousand, everyone comfortable with that?  
7 Any further discussion on a set figure?

8 SENATOR RUFF: Madam Chairman, if  
9 we are wandering into this, I think we ought to be as flexible  
10 as we can and see what the response is and I feel  
11 uncomfortable setting too many parameters when we don't  
12 know what we're talking about.

13 DELEGATE BYRON: I was willing to go  
14 to a million. I think if you go below 500,000, you open the  
15 door up to too many and too much work for the staff to be  
16 considering below 50,000.

17 DELEGATE MARSHALL: Typically a  
18 phase one funding, kind of a lower level phase two at a higher  
19 level?

20 MR. FEINMAN: Significant.

21 DELEGATE MARSHALL: So then should  
22 we have different levels for phase one and phase two?

23 DELEGATE BYRON: We're not going to  
24 be doing phase one.

25 DELEGATE MARSHALL: They have to

1 have received phase one, I thought they were going to come  
2 match.

3 MS. CAPPs: I don't think our rules say  
4 you have to get a phase two, so are we going to have a limit for  
5 companies that don't get a phase two? Sounds like you're  
6 pursuing applicants that got a phase one and may not get a  
7 phase two and we're also considering applications for those in  
8 successful in phase two. You have to remember when we  
9 promote this program, I think we do need flexibility and I kind  
10 of like the million dollar limit and it's going to be hard for us to  
11 promote or attract companies to our region. I think the more  
12 flexibility we have at the beginning and CIT can get interested  
13 in our region and there would be value in that. Phase two  
14 SBIRs, I don't have the specifics of getting into this but you  
15 can get a phase two SBIR and get a million dollars and might  
16 get another add-on for a half a million.

17 DELEGATE BYRON: The thing Sarah  
18 that has come about from our history of giving out grants, I  
19 agree with what you said about the million dollars but it does  
20 open it up to maybe other opportunities but if everyone sees a  
21 million out there, they think that is the base for what they're  
22 supposed to ask for and while we have very rarely on this  
23 Committee seen something come back at a lower level because  
24 it's hard to design that amount of money and how much  
25 you're giving out and I guess that's where we run into, if you

1 put a million then every application seems to want to come in  
2 for a million rather than the 500,000. There might be a way to  
3 identify somebody that's on the, that needs more, needing  
4 something additional.

5 MS. CAPPAS: I can give two examples of  
6 Southside R&D grants that we funded that are SBIR,  
7 engineered, they would fall in that grant category; fiber optics,  
8 that would fall to the contract side.

9 MR. CORRIGAN: I was going to mention  
10 since you were talking about when it's appropriate to start  
11 releasing Tobacco Commission funds or allowing them to  
12 apply in this whole process, phase one and phase two. To go  
13 back a little bit, when you apply for a phase one or the reason  
14 they set up the SBIR program was to start to, there would be  
15 somebody there willing to finance various ideas and to push  
16 the needle of innovation forward and the only full funding that  
17 companies had to pull from was investors that would never  
18 encourage high-risk and new ideas to come to fruition. They  
19 designed the phase one program around that and if you have  
20 some crazy wild hare idea and you don't know if it's going to  
21 work or not, you can apply for the SBIR program as long as  
22 you can make a good case why you need it and give scientific  
23 rationale behind it. The federal government will look at that  
24 and see if it works and give you a hundred to a hundred and  
25 fifty thousand to try a crazy idea. That idea may or may not

1 work and that's when you apply for the phase two. You've  
2 done your six or nine months of research and you say here's  
3 what I found and it worked or didn't work. If it did work, you  
4 had of getting a phase two. For the Tobacco Commission to  
5 say this is going to take people out of applying for phase one  
6 and got a phase one, that doesn't meet your threshold of  
7 passing proof of concept. Considering that a phase one and  
8 not proof of concept.

9 MR. FEINMAN: To clarify, I think what  
10 we envisioned is that we would give grants that might be  
11 contingent and say we're in support of your phase two  
12 application. We could say you have an ongoing business need  
13 and we've looked at your program and like what you're doing  
14 and you have a business need right now and maybe phase one  
15 of \$30,000 or \$40,000 and you've applied for \$500,000 of  
16 phase two SBIR funding, which we would match to the tune of  
17 another \$200,000. It would be keep your head above water  
18 for a while since we like your project and it did not strike us  
19 as a wild hare idea. If upon receipt of your SBIR phase two  
20 you had these other capital needs, there will be a grant  
21 already reflected on your SBIR phase two application to help  
22 you pull down the federal dollars, we'll fill that gap. That's  
23 why this was brought up as a gap filling type of role.

24 MS. COLEMAN: If they're in phase one  
25 or phase two, is there a job creation criteria?

1 DELEGATE BYRON: Part of the whole  
2 business plan as far as us approving has a job factor in it that  
3 we look at when we look at the business plan, creating  
4 employees and commercializing. We look at the capital  
5 investment and look at the jobs that are created and all these  
6 things as part of the business plan in general as we're doing  
7 our vetting.

8 MR. FEINMAN: I think there's a good  
9 amount of potential here, particularly when you think about  
10 the amount of business you could do with the contract  
11 agencies. It would be wonderful if we wound up with some  
12 Triangle companies and maybe someone that would want to  
13 build certain things in our part of the world.

14 DELEGATE BYRON: Keep in mind what  
15 we've been dealing with in the past. If something comes along  
16 instead of having it turned down and staff should be able to  
17 pick up on that and be able to tell us this is not a good  
18 recommendation of the following companies or it's good. I  
19 don't see where giving an opportunity or opening a different  
20 door to look at ways to be able to help new R&D projects in  
21 the tobacco community.

22 MS. COLEMAN: Madam Chairman, if we  
23 look at this as a floor signal that you can apply for \$100,000  
24 or \$150,000 but not more?

25 DELEGATE BYRON: I don't think we've

1 ever had that before that people start figuring things out. Yes,  
2 I'm sorry.

3 MS. SORBER: I know I would regret it if  
4 I didn't make a point that I think needs to be made on behalf  
5 of the companies. Evan, did I understand you to say trouble  
6 areas or three times the repayment would have to happen if  
7 they didn't commercialize in the region?

8 MR. FEINMAN: If they didn't  
9 commercialize the project, that's in the agreement we have  
10 with Micronics.

11 MS. SORBER: I've never seen that in my  
12 agreement.

13 DELEGATE MARSHALL: You're saying if  
14 they took that project to another state?

15 MR. FEINMAN: Yes, we paid for the  
16 research and then they build a factory somewhere else we  
17 need to get our money back.

18 MS. SORBER: That requires us to do  
19 commercialization in the region, there's no question about  
20 that. There's no claw back provision in the R&D program.

21 MS. CAPP: There's been different  
22 versions of our R&D agreement. The other point I wanted to  
23 make is would you be expecting someone to move to the  
24 region for fifty thousand or a hundred thousand?

25 MR. FEINMAN: They needn't necessarily

1 but they might and if there's fifty thousand dollars initial  
2 support contingent upon receipt of an SBIR it's much more in  
3 the back.

4 MS. SORBER: What about being  
5 required to move to the region? I'm here and I'm here for life  
6 but I don't know about the other ones.

7 MR. FEINMAN: For \$500,000 to do the  
8 research.

9 MS. SORBER: Yes, \$500,000 that would  
10 be a motivator.

11 MS. CAPPS: There's a prospective  
12 company that's been with this program and they're not in the  
13 region right now.

14 MR. BURNS: I'm Harry Burns with  
15 Directed Vapor Technologies International and we are an SBI  
16 company and some of the things you're getting at are things  
17 that are very much on our mind and very real to us. There's  
18 two key points I'd like to make that I hope would be helpful.  
19 The true valley of death comes after you have the phase two.  
20 In my mind the logical window to have the grants to come  
21 after phase two because in phase two there's usually ample  
22 money to move the project along. But the critical part that I  
23 think would be of interest to the Tobacco Commission, it  
24 creates jobs. To have a company decide to put in a business  
25 plan and create jobs and the decision and problem they face is

1 after the phase two and when you get down to the capital to  
2 build that plan. What's attractive about what the Commission  
3 is doing, we're using grants to build equipment and staff  
4 money and the SBIR are not capital money. You don't really  
5 need the capital money usually until after you go into phase  
6 two. So that's why the plan as I understood it and the money  
7 coming after phase two makes a heck of lot of sense to use  
8 who are out here trying to do this.

9                   The second thing I'd say is on the  
10 amount and you're talking about a company moving to a  
11 region, which we're considering doing to start a factory and  
12 hire a number of people and will take a significant amount of  
13 capital and to have the limit be below a million dollars I think  
14 is self-defeating because at least from my experience, trying to  
15 create a factory and jobs I don't think you'd be able to do that  
16 very well for something less than that in many cases.

17                   MR. FEINMAN: The TROF program will  
18 continue to exist. We have additional incentive for the actual  
19 creation with the factory and hiring of the folks in a separate  
20 program.

21                   MR. BURNS: It's very unusual to have a  
22 program money you can spend on capital equipment, which as  
23 I understand it is what you want to see happen for very good  
24 reasons. And that's how you have someone anchored in the  
25 region create the jobs.

1 MS. CAPP: If we match on phase two,  
2 we attract into our region and phase two when they actually  
3 have a real match for our grant and they have the phase two  
4 match money before spending it and move to the region, that's  
5 supporting with capital costs for a lab or equipment needs. It  
6 starts to address the phase that's going to come after the  
7 phase two to help them accomplish what they need to.

8 MR. BURNS: Yes.

9 SENATOR RUFF: After hearing all this, I  
10 think it's best we not indicate dollars, not use dollars in these  
11 proposed regulations. If we feel like we need it, we could do it.  
12 As a second point, I think we need to clarify that if the  
13 company has applied for phase two money but we will not  
14 award any money until the phase two has been awarded,  
15 should that take care of it?

16 DELEGATE BYRON: You mean  
17 contingent on being successful?

18 SENATOR RUFF: We would not fund  
19 anything unless they have been approved for the phase two.

20 DELEGATE BYRON: If they're applying  
21 to us contingent on it then we're still, before it comes before  
22 us maybe that's still, sending in their money and have to wait  
23 to go through an opening of our grant cycle and our meetings  
24 and the coming together to approve and we're trying to do  
25 what Sarah mentioned for them to come to the Tobacco

1 Region with that phase two money and there's a way that that  
2 could be coordinated with the timing. Tim?

3 MR. PFOHL: Yes, a couple of points,  
4 Senator Ruff's point. I think we as staff could send a signal  
5 generally looking for projects fifty to 500,000 range but under  
6 no circumstances this R&D make grants larger than \$2  
7 million. That would give you some flexibility and create some  
8 expectations for applicants and give some flexibility. If you go  
9 over 500,000 or a million if you wanted to but I think the  
10 point is important that we recognize that absent the phase two  
11 money, these folks don't have a funded project, they don't  
12 have a match for us and clearly any award that we approve  
13 has to be tied to successful phase two funding.

14 DELEGATE MARSHALL: Frank, is that a  
15 motion.

16 SENATOR RUFF: That's a motion.

17 DELEGATE MARSHALL: Second.

18 DELEGATE BYRON: Repeat that.

19 SENATOR RUFF: There will be no  
20 funding until the phase two has been granted. They can start  
21 the process prior to that and they can work with staff and  
22 work with the business plan but no actual cash will be  
23 awarded until phase two is awarded and that's the first  
24 motion.

25 DELEGATE BYRON: We have a second

1 from Delegate Marshall, further discussion?

2 MS. COLEMAN: Does that mean cash  
3 would not be drawn down or the grant would not be awarded?

4 SENATOR RUFF: The way I said it is it  
5 would not be awarded until after.

6 MR. FEINMAN: If I might offer something  
7 that might preserve, I think the value for the federal  
8 government in seeing that the staff liked the project and they  
9 have engaged with us might rephrase it to say grant funding is  
10 contingent upon receipt of an SBIR phase two. It's been  
11 awarded but from the federal government's perspective they  
12 can see we have said if you fund them then we will fund them  
13 and that can bolster their, what I've heard is that having that  
14 in their pocket helps them in their ability to draw down the  
15 money.

16 SENATOR RUFF: I would be agreeable to  
17 that but I just don't want money out the door for us.

18 DELEGATE BYRON: You've amended it  
19 to make it contingent on receipt, upon receipt. Everybody  
20 understand it? Any further discussion? All in favor of that,  
21 say aye. (Ayes.) Any opposed? (No response.) Senator Ruff?

22 SENATOR RUFF: Madam Chairman, I  
23 think the way that Tim laid it out could still go up to \$2  
24 million and staff would be talking about the \$50,000 and I  
25 don't know how you make that motion?

1 DELEGATE BYRON: We'll keep the same  
2 guidelines as we've had in the past, which was the \$2 million  
3 cap.

4 MR. PFOHL: Yes.

5 DELEGATE BYRON: Staff would restrict  
6 it and we keep the same guidelines.

7 SENATOR RUFF: I think so, the \$2  
8 million cap.

9 DELEGATE BYRON: I don't know that  
10 we need a motion as long as it doesn't change.

11 MR. PFOHL: We take directions from the  
12 Committee.

13 DELEGATE BYRON: Does that cover the  
14 whole gamut of the guidelines?

15 MR. FEINMAN: Yes, that's my  
16 understanding of that.

17 DELEGATE BYRON: We'll put all that  
18 out as soon as you can get that together. I guess that will be  
19 for our September meeting if there's any out there right now,  
20 we don't know but at least we can start the process.

21 DELEGATE MARSHALL: We've heard  
22 about this valley of death and I think that's after phase two.  
23 The applications now SBIR at a specific time of the year? Do  
24 we need to make our, the proposals to us a specific time? We  
25 don't want to be out of phase so to speak that if we're doing

1 our applications in the fall and they need money in the spring  
2 then we haven't helped them. I think we need to make sure  
3 that we time that so we can help them.

4 MR. FEINMAN: It's my understanding  
5 this is sort of rolling depending on the federal agencies.

6 MS. SORBER: They roll, I think between  
7 ten and eleven agencies and they roll at different times. The  
8 phase one maybe two or three month's evaluation and then  
9 another agency, six months to a year. We waited a long time  
10 in the past. If you have a rolling acceptance period and the  
11 criteria is key to their SBIR, which could be USDA like ours or  
12 DOD or NASA. I think that will get you what you need.

13 DELEGATE BYRON: We can also ask in  
14 the application process to notify staff if there's any one phase  
15 one funding that indicates future conversation and we'll start  
16 being aware of people that are already entering that process.

17 MR. FEINMAN: Frequently folks have a  
18 good sense of what the pipeline looks like and we can have a  
19 conversation with the Chair about what we think is out in the  
20 world and that gives staff the availability at the discretion of  
21 the Chair.

22 DELEGATE MARSHALL: Different  
23 agencies have different times but if they were all in the spring  
24 that could cause a problem.

25 DELEGATE BYRON: Moving along, the

1 proposed guidelines for people who are already active R&D  
2 projects and you should have a list in front of you. I've got a  
3 note received one grant award today and I do have a question  
4 for staff as to why we would only be looking at those that had  
5 one previous grant award. I don't know examples why you  
6 would eliminate others and not even consider them or what  
7 the criteria was.

8 MR. PFOHL: That was simply because  
9 the grants in this program is two per applicant or two per  
10 project. It's not a limit of two, Southwest Virginia Higher  
11 Education, two per project. So we pulled together this list of  
12 fifteen projects that received one phase of funding. I would  
13 point out there were a couple that were awarded three or four  
14 years ago that are on there for illustrative purposes and not  
15 particularly active.

16 DELEGATE BYRON: Are you aware of  
17 any that have already received –

18 MR. PFOHL: That's the list that's  
19 current.

20 MR. FEINMAN: If we adopt the SBIR  
21 policy, it does amend it but it was merely to amend the SBIR  
22 policy, we might need a second motion to now adopt the SBIR  
23 policy as amended, moving forward.

24 DELEGATE MARSHALL: So moved.

25 DELEGATE BYRON: Did everybody

1 understand that?

2 MR. FEINMAN: It's a parliamentary  
3 nicety.

4 MS. COLEMAN: Second.

5 DELEGATE BYRON: Everybody  
6 understand what was presented to us? All in favor say aye.  
7 (Ayes.) Opposed? (No response.)

8 MR. FEINMAN: Now, what we've  
9 proposed here and I'll just walk through them. Requests will  
10 be accepted for projects that have received only one previous  
11 grant award and the current guidelines limit recipients to a  
12 maximum of two grant awards. Applicants must demonstrate  
13 substantial accomplishment what they promise to accomplish  
14 at least substantially under the first grant, need a clear and  
15 compelling case for the specific needs, activities, milestones  
16 and outcomes for what we're talking about for additional  
17 research and development to be funded by the proposed  
18 second grant. They must present a detailed description and  
19 commitment that they can actually commercialize within our  
20 region and conform to all of our policies in general, including  
21 the number that's listed.

22 DELEGATE BYRON: What makes these  
23 different from what we already have in place?

24 MR. FEINMAN: What we will do now is  
25 say if we let things stand as they are right now, we've

1 approved the SBIR program but not to open the door as well  
2 for follow on proposals from companies around the world. By  
3 formally adopting these two, we say this pool of applicants as  
4 well as SBIR recipients that they are eligible to come before  
5 us. Given that they have completed our prior vetting process  
6 and have received an initial grant, companies we previously  
7 vetted are to respect the vetting process.

8 DELEGATE BYRON: Any questions?

9 MR. OWENS: Does that mean a new  
10 grant another three years and another three years to  
11 accomplish what they said?

12 MR. FEINMAN: To accomplish the new  
13 goals, yes. They are still reevaluated under their old grant.  
14 They're not being relieved of their commitment on the prior  
15 grant. We say we're still working with you on your project and  
16 here's a new grant and new milestone and what you need to  
17 accomplish with these new milestones.

18 MS. CARTER: I'm assuming that the  
19 staff when you're looking at the grantees that have received  
20 one grant and come back looking for another grant, I'm  
21 assuming there's a set of criteria the staff looks through to  
22 make sure that they move along.

23 MR. PFOHL: There are milestones in  
24 place and outcomes and deliverables that are listed in the  
25 phase one grants. There's certainly that's something we can

1 hold up and say are you accomplishing these and doing phase  
2 one funding. It's a way for us to separate folks that are  
3 aspiring to phase two from the ones that really are ready for  
4 phase two.

5 MS. CARTER: Are there site visits as  
6 well?

7 MR. PFOHL: We've seen all of the R&D  
8 grantees, I don't know if that's necessarily part of the review  
9 process unless you directed us to.

10 SENATOR RUFF: If there's no more  
11 questions, I move we accept the proposed guidelines.

12 MR. OWENS: Second.

13 DELEGATE BYRON: We have a motion  
14 to continue the guidelines, which opens up funding again for  
15 active R&D projects. We have a motion and a second. All in  
16 favor of that say aye. (Ayes.) Opposed? (No response.) That's  
17 approved. Any other business?

18 MR. PFOHL: Sarah will handle this.

19 MS. CAPP: On page 29, a current grant  
20 from the Dan River Business Development Center, grant  
21 number 2282. In this case the grantee is requesting an  
22 extension. Staff recommends approval of an extension  
23 through June 30, 2016 to support the project activities and to  
24 allow for completion of the contract and this has to do with the  
25 equipment. This was a request we received back in December,

1 just for clarification. That's why the action is now or the  
2 Committee didn't meet prior to January.

3 DELEGATE MARSHALL: I'd make a  
4 motion that we grant the extension.

5 MR. OWENS: Second.

6 DELEGATE BYRON: We have a motion  
7 to accept the staff's recommendation. Any further discussion?  
8 All those in favor say aye. (Ayes.) Opposed? (No response.)  
9 All right, that's approved. Outside of having a date that the  
10 staff is going to come up with something by tomorrow for the  
11 coming applications and open up the process, anything else to  
12 take up? All right. Is there any public comment? If not, then  
13 we're adjourned.

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15 PROCEEDINGS CONCLUDED.

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## 1 CERTIFICATE OF THE COURT REPORTER

2  
3 I, Medford W. Howard, Registered Professional  
4 Reporter and Notary Public for the State of Virginia at large,  
5 do hereby certify that I was the court reporter who took down  
6 and transcribed the proceedings of the **Tobacco Region**  
7 **Revitalization Commission R & D Committee meeting**  
8 **when held on Monday, May 23, 2016 at 3:00 p.m. at The**  
9 **Harvester, Rocky Mount, Virginia.**

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

13 Given under my hand this 16<sup>th</sup> day of June,  
14 2016.

15  
16  
17  
18 \_\_\_\_\_  
19 Medford W. Howard

20 Registered Professional Reporter

21 Notary Public for the State of Virginia at Large

22 My Commission Expires: October 31, 2018.

23 Notary Registration Number: 224566