

## F. University of Rochester – Upstate Regional Seed Fund (X308)

December 16, 2010

- Grantee:** University of Rochester (“UR”)
- Beneficiary:** Excell Partners, Inc. (“Excell”), which will use the grant funds to make equity investments in high-tech startup and emerging companies.
- ESD Investment:** A grant of up to \$2,000,000 to be used for a portion of the cost of providing pre-seed and seed-stage funding to New York State technology-based companies coming from universities and research institutions in the Upstate Corridor, including Rochester, Buffalo, Syracuse, Ithaca, Corning, and Albany.
- Project Locations:** Upstate New York, Multiple Counties
- Project Completion:** December 2013 (expected)
- Grantee Contact:** Ronald J. Paprocki, Senior Vice President & CFO  
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- Project Team:**
- |                    |                  |
|--------------------|------------------|
| Project Management | Edward Muszynski |
| Legal              | Richard Dorado   |
| Affirmative Action | Helen Daniels    |
| Environmental      | Rachel Shatz     |

### Project Description:

#### Background

According to the Access to Capital Committee (the “Committee”) report that was part of the Governor’s Small Business Task Force (2010), research and development (“R&D”) data from New York State’s (“NYS”) colleges and universities suggests great potential for technology business growth. Sixty-eight percent of university startups created between 1980 and 2000 remained in business in 2001, compared to only 10% among non-university startups. In 2006, NYS’s colleges and universities spent \$3.8 billion on R&D (8% of the nation’s total), second only to California, which spent \$6.5 billion (14% of the nation’s total); however, in terms of venture capital (“VC”) investment, NYS ranked fifth in the country, far behind California and Massachusetts. In 2007, more than \$14 billion in VC was

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invested in California, \$3.5 billion in Massachusetts and only \$1.2 billion in NYS. Only \$47 million of the VC investments in NYS went to seed-stage or startup companies. As a result, the Committee recommended that NYS create a seed capital fund that would leverage private VC and support the development of seed-stage and startup companies in the state. This pilot program is a first step in developing more seed-stage equity resources in New York State.

### *University of Rochester*

The University of Rochester is an independent, co-educational, non-sectarian, not-for-profit institution of higher education, research and health care chartered by the New York State Board of Regents. UR's 158 buildings house more than 200 academic majors, more than 2,000 faculty and instructional staff, and some 9,300 students—approximately half of whom are women. Combined with its medical center and hospital (“URMC”), the University is the largest employer in the Rochester region, with approximately 19,600 full-time equivalent jobs, having surpassed Eastman Kodak Company in that category in 2004.

ESD has supported URMC in the past owing to the economic development potential that medical research provides to the region. In 1999, ESD approved a grant of \$3,000,000 from a special appropriation for a portion of researchers' salaries, benefits and supplies to help URMC attract top research staff to its newly created Institute for Biomedical Sciences. In 2001, ESD approved a grant of \$4,000,000 to URMC toward new machinery, equipment and furnishings for its medical research facilities. That grant came from a special appropriation for economic development projects that it would have a positive impact on retention and attraction of biotechnological researchers and facilitate the formation of commercial companies. In 2004, ESD approved an Empire Opportunity Fund (“EOF”) Grant of \$10,000,000 which was used to purchase, renovate and equip buildings to further expand the University's medical research facilities. And in 2006, ESD provided an EOF Grant of \$1,000,000 toward the construction and purchase of machinery and equipment to expand the URMC's Eye Institute. All of these projects were successfully completed and the funds disbursed.

In December 2008, ESD approved a \$25,000,000 Upstate City-by-City Grant for design, construction and other costs associated with the Clinical and Translational Science Building (“CTSB”), which will serve as an integrated home for clinical and translational research at URMC. The new facility is the centerpiece of a \$500 million strategic investment in research, clinical care and education that URMC will make over the next several years. The proposed CTSB is a 195,000-square-foot building to be built at an estimated cost of \$60,000,000. Construction began in October 2008 and is expected to be completed in summer 2011. To date, nearly \$2,000,000 of the grant has been disbursed.

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According to the Center for Governmental Research (“CGR”), the direct and secondary impacts of the CTSB will be \$30 million annually after the venture has matured in the fifth year, with the creation of 600 permanent jobs. Additionally, CTSB will enable URMC to aggressively expand the number of clinical and translational investigators over the next ten years, which could yield an additional \$25 million in external research revenue per year.

### *Excell Partners*

Formed as a not-for-profit corporation in January 2005 by an agreement with URMC, Excell’s mission is to provide pre-seed and seed-stage funding\* to select technology-based startup companies. Excell works with universities and related organizations throughout the region including, but not limited to, UR, Cornell University, the “Technology Farm” in Geneva, the Smart System Technology Commercialization Center in Canandaigua (formerly Infotonics Technology Center), University at Buffalo, Syracuse University, and the Rochester Institute of Technology. Presently, Excell is the only pre-seed and seed-stage funding source operating on a regional basis in upstate New York. Excell has invested \$2.4 million in twenty-one new companies since its inception.

The following are representative activities that Excell conducts either directly or through service providers:

- Identify promising innovations and market opportunities in collaboration with intellectual property creators and owners;
- Assist in the development of business, strategic and marketing plans;
- Assist in obtaining access to early-stage development and seed capital;
- Administer a pre-seed, development stage fund to support commercialization activities for promising technologies, especially those created by regional universities; and
- Collaborate with regional universities to publicize the region’s technology sectors.

In December 2006, ESD’s Directors approved a \$750,000 grant for one year of Excell’s investments and expenses. In 2007, Excell invested more than \$700,000 in seven companies - three from Cornell University, two from UR, one from the University of Buffalo, and one from Rochester Institute of Technology - with technologies ranging from biotech/biosensing to agricultural. In three of the companies, Excell co-invested with angels and other venture capital firms to better leverage the dollars. In December 2007, ESD’s Directors approved a second \$750,000 grant to Excell for investments and expenses, and also a grant of \$89,000 to be used for the cost of supporting technology-based start-up companies. Excell sponsored three pre-seed workshops and provided grants to companies for market feasibility assessments and prototypes. All three grants have been disbursed.

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\*These stages occur before companies produce revenue. Pre-seed companies have recently incorporated and are at a pre-prototype stage, filing patents and determining market potential of their products. At the seed stage, companies are writing more detailed business plans, building management teams, finalizing prototypes, proving their technologies actually work outside the laboratory, and seeking customer interest.

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### The Project

The project will support NYS's high R&D capacity, increase the amount of pre-seed and seed-stage funding for companies commercializing technologies developed upstate and foster high-growth and high-impact companies that will create quality jobs for NYS residents. In carrying out the project, Excell will:

- Serve as the key upstate regional partner in identifying, developing, adapting, and implementing advanced technologies to enable the growth and competitiveness of existing and emerging companies; and
- Directly provide and serve as the conduit to pre-seed and seed-stage capital for existing and emerging companies involved in the development and commercialization of technologically advanced products and processes.

All proceeds of the ESD grant shall be used to make pre-seed or seed-stage equity investments in small technology companies. Each company funded under this project shall meet NYS's definition of a small business, which shall mean "a business that is resident and authorized to do business in the state, independently owned and operated, not dominant in its field, and employs one hundred or fewer persons on a full-time basis."

Before making equity investments in NYS companies, generally in the \$50,000 to \$150,000 range, Excell staff and its consultants will conduct appropriate due diligence, including but not limited to the review of business plans, interviews with key personnel and analysis of market trends and of underlying technologies.

It is expected that the initial deployment period, defined as disbursement of the full \$2,000,000 grant, will be three years. If funds are not deployed within a reasonable period after that, as determined by ESD, ESD maintains the right to recapture unutilized funds.

All returns on ESD investments shall be used exclusively for subsequent equity investments in small technology companies. If ESD grant proceeds are blended with other matching funds to make an equity investment, then the return on the ESD investment shall be defined as the pro-rata share of the return based on the percentage of the initial investment funded from ESD grant proceeds. Such return will be kept in the same imprest account.

During the initial deployment period, the Grantee will furnish quarterly reports and a final report describing the impact and effectiveness of the project. Such reports will contain information on investments, current status, leveraged funds, business revenue, job creation outcomes, and other items as determined by ESD. Following the initial deployment period, the Grantee will report annually to ESD on the subsequent uses of the return investments for a period of twelve years.

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Financing Uses	Amount	Financing Sources	Amount	Percent
Pre-Seed and Seed-Stage Working Capital	\$4,000,000	ESD Grant	\$2,000,000	50%
		Excell / University Matching Funds*	2,000,000	50%
<b>Total Project Costs</b>	<b>\$4,000,000</b>	<b>Total Project Financing</b>	<b>\$4,000,000</b>	<b>100%</b>

\*Excell and its partners will make good-faith efforts to achieve a 1:1 match. Contributions may be in the form of cash or an in-kind match, including but not limited to, uncompensated time of employees and consultants or faculty release time.

**Disbursement Terms:**

Upon receipt of the executed Grant Disbursement Agreement, ESD shall deposit \$2,000,000 in an imprest account at a bank mutually acceptable to ESD and the Grantee. These funds will be invested as per ESD’s Directors approved investment guidelines. Quarterly, Grantee shall provide copies of all bank statements to ESD, starting when the funds are deposited and continuing until all funds have been disbursed. Upon requesting and receiving ESD authorization, the Grantee may draw down funds for eligible costs from the imprest account. Quarterly, the Grantee shall provide to ESD an invoice and other such documentation as ESD may reasonably require on the uses of the funds in the previous quarter. After disbursement, copies of all bank statements shall be returned to ESD annually during the twelve-year reporting period.

Investments must be incurred on or after April 1, 2010, the start of the New York State budget year in which the project is authorized, to be considered eligible project costs.

**Statutory Basis – Community Projects Fund:**

The project was authorized in the 2010-2011 New York State budget. No residential relocation is required as there are no families or individuals residing on the site.

**Disclosure and Accountability Certifications:**

The Grantee and Beneficiary have provided ESD with the required Disclosure and Accountability Certifications. The Grantee has reported no conflict of interest violations. As the area’s largest employer and owner/operator of numerous facilities, including two major hospitals and other health-care sites, the Grantee has disclosed that it is subject to regulatory oversight by various federal, state and local governmental agencies, and as such has been subject to investigations or determinations related to the following areas: employment claims and labor laws; health-care regulations and billing; OSHA and EPA issues; and accessibility to the disabled, among others. The Grantee has reported that all of these matters have either been successfully settled with the relevant regulatory agency or agencies, often without fine or penalty, are currently in the process of litigation, investigation or settlement, or have been withdrawn. The Beneficiary’s certifications indicate that it has no conflict of interest or good standing violations. In view of the above, staff recommends that the Corporation authorize the grant to the Grantee as described in these materials.