

SCOMM

#9:104



CONNECTICUT PRODUCT DEVELOPMENT CORPORATION

February 14, 1978

Mr. Tom Singer
Pouch V
Juneau, Alaska 99811

Dear Mr. Singer:

I feel that the best way to respond to your letter request of January 26, 1978 for information concerning the earning record to date of the Connecticut Product Development Corporation (CPDC) is to provide you with both the rate of return, which was projected at the time consideration was being given to the creation of CPDC, and the actual earning record, which CPDC has experienced to date.

First, with regard to the projected rate of return, I am attaching a copy of the relevant section of the Strike Force for Full Employment, which made the recommendation to then Governor Thomas J. Meskill, that CPDC be established. As you will note from the attached material, CPDC's return is solely by way of a royalty on sales of products developed with CPDC's financial assistance. Namely, if the developed product proves to be saleable, CPDC obtains a return. However, if the developed product proves not to be saleable, then CPDC loses its investment in the project. It is important to note that CPDC's investment is not in the form of a loan, consequently a company which receives financial assistance from CPDC is under an obligation to payback CPDC's investment only in the event and to the extent that the developed product proves to be saleable. Furthermore, it is also important to note that CPDC does not expect to obtain a return on each of its investments. Rather, it is expected that when all of CPDC's investments are considered collectively, the return derived therefrom will be adequate to make CPDC self-supporting, i.e., provide CPDC with sufficient return to cover CPDC's administrative expenses as well as its investment in all of its projects. To achieve this, CPDC must necessarily obtain from its successful projects sufficient income to offset its losses in its unsuccessful projects.

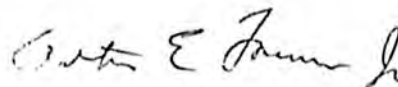
As concerns CPDC's actual earnings to date, to put them in perspective note must be taken of the fact that CPDC did not make its first investment in a project until March 1975. Since then,

nineteen projects have been approved for investment by CPDC. Of this total, CPDC has effected Development Agreements with seventeen companies. From the projects which have proceeded to completion, CPDC to date has received \$3,147.29 in royalties, and is due approximately another \$3,900 in royalties. In this time frame, CPDC has committed itself to provide up to \$1,163,138 in funds for the nineteen projects, and has actually, as of January 31, 1978, expended \$676,478.97 of this amount. There are several projects from which CPDC expects, based on actual orders received for the developed products, to receive significant royalty returns during calendar year 1976. Some of these royalties will be deferred for a couple of months, inasmuch as CPDC only requires that the royalty payment due to it be made thirty days after the close of each quarter of the company's fiscal year.

To summarize, not all of CPDC's projects will meet the expected or hoped for results, but the present operation of CPDC indicates that the original Strike Force estimate of 35% successes will easily be achieved. CPDC made its first authorization of funds in 1975, and received its first royalties in 1976. The subsequent and anticipated rate of royalty return is some two years ahead of estimate, and yet the investment is only one quarter that which the Strike Force projected at this stage of CPDC's development. Based on present estimates, it is the opinion of CPDC staff that the entire amount that CPDC has invested in projects to date will be returned by way of royalty payments within two to three years.

If you have need of any further information regarding CPDC and/or its method of operation, please do not hesitate to contact us at your convenience.

Very truly yours,



Arthur E. Fournier, Jr.
Senior Project Executive

AEF:pas

Enclosures

PROPOSAL FOR THE CONNECTICUT PRODUCT DEVELOPMENT CORPORATION

INTRODUCTION:

It is evident that product development is the precursor of manufacturing opportunity. And manufacturing new products is a clear path to creating jobs for Connecticut's high skill level work force. From this basic observation, the subcommittee, armed with an impressively successful model, has recommended the formation of a Connecticut Product Development Corporation. This corporation, CPDC, would have the following objectives:

1. To exploit innovation in situations where private financing is not available.
2. To select development opportunities which will result in new products offering employment opportunities for Connecticut citizens,
3. To increase the attractiveness of Connecticut as a corporate base of operations.
4. To become self-sustaining thru reimbursements from successful developments.

The recommendations have been reduced to proposed legislation in the appendix entitled, "Connecticut Product Development Corporation Act" hereafter referred to as the Act. The Act fully describes the purposes of the corporation, the governing procedures, personnel makeup, and all other detail with respect to operation and funding.

Connecticut Product Development Corporation (CPDC) has been modeled after the proven National Research Development Corporation of the United Kingdom. The unique characteristic of the United Kingdom corporation is that it has become self-sustaining by obtaining reimbursement from successful projects for which it supplied financial support. The Committee suggests that CPDC would become self-sustaining, provide Connecticut with new job opportunities and additional tax revenue, while at the same time providing evidence of aggressive leadership at the State level to encourage economic growth and development.

MECHANICS:

In operation, CPDC would have a technical staff to screen proposals from industry, universities or individuals. A Board of Directors, appointed by the Governor, would approve projects for financial support, usually on a cost-sharing basis. CPDC would fund only development, not basic research, nor capital equipment, and facilities. Its funds would be used to bolster new product development in the critical phase of translating an idea into a producible commodity. It is evident these funds will be at high risk. CPDC expects success in but one out of three projects sponsored. This success ratio will produce royalty revenues from successful projects sufficient to make CPDC self-sustaining.

The Act would provide CPDC its initial funding through the sale of up to \$10 million tax-free state bonds. The Act provides for servicing this debt and retiring it after an initial postponement that recognizes the natural gestation period before CPDC would receive significant revenues.

MODEL:

Confidence in the success of CPDC is heavily dependent upon the model provided by Britain's NRDC. (Exhibit I outlines NRDC history). In the extrapolation of this model to predict Connecticut experience, the committee drew upon the background understanding of K.E.V. Willis, who is the administrative manager of NPDC and member-consultant to the Committee.

A SUCCESSFUL MODEL BRITAIN'S NATIONAL RESEARCH DEVELOPMENT CORP.

1. Started in 1948 - 5 million pounds
2. Current line of credit - 50 million pounds
Current borrowing - 23.5 million pounds
3. Current revenue - 6.5 million pounds
Current operating expense - 1.0 million pounds
4. Started as exploiter of government owned patents, but major success came from NRDC sponsored backing of university and industry R&D.
5. Types of projects supported
 - a. New antibiotic
 - b. Hovercraft
 - c. Fuel Cell
 - d. Computers
 - e. Clean Diesel Engine
 - f. Blackberry Harvester
 - g. Medical Instrumentation
 - h. Machinery, Metal Cutting, Farm, Textile
 - i. Construction Equipment
 - j. New Materials, Ceramics, Plastics
6. Record to date - development projects

Total submissions	25,000
Developments sponsored	640
Discontinued projects	238
Projects currently earning income	126
Projects active, not yet earning	278
Success ratio	$\frac{126}{364} = 35\%$

PROJECTED BENEFITS:

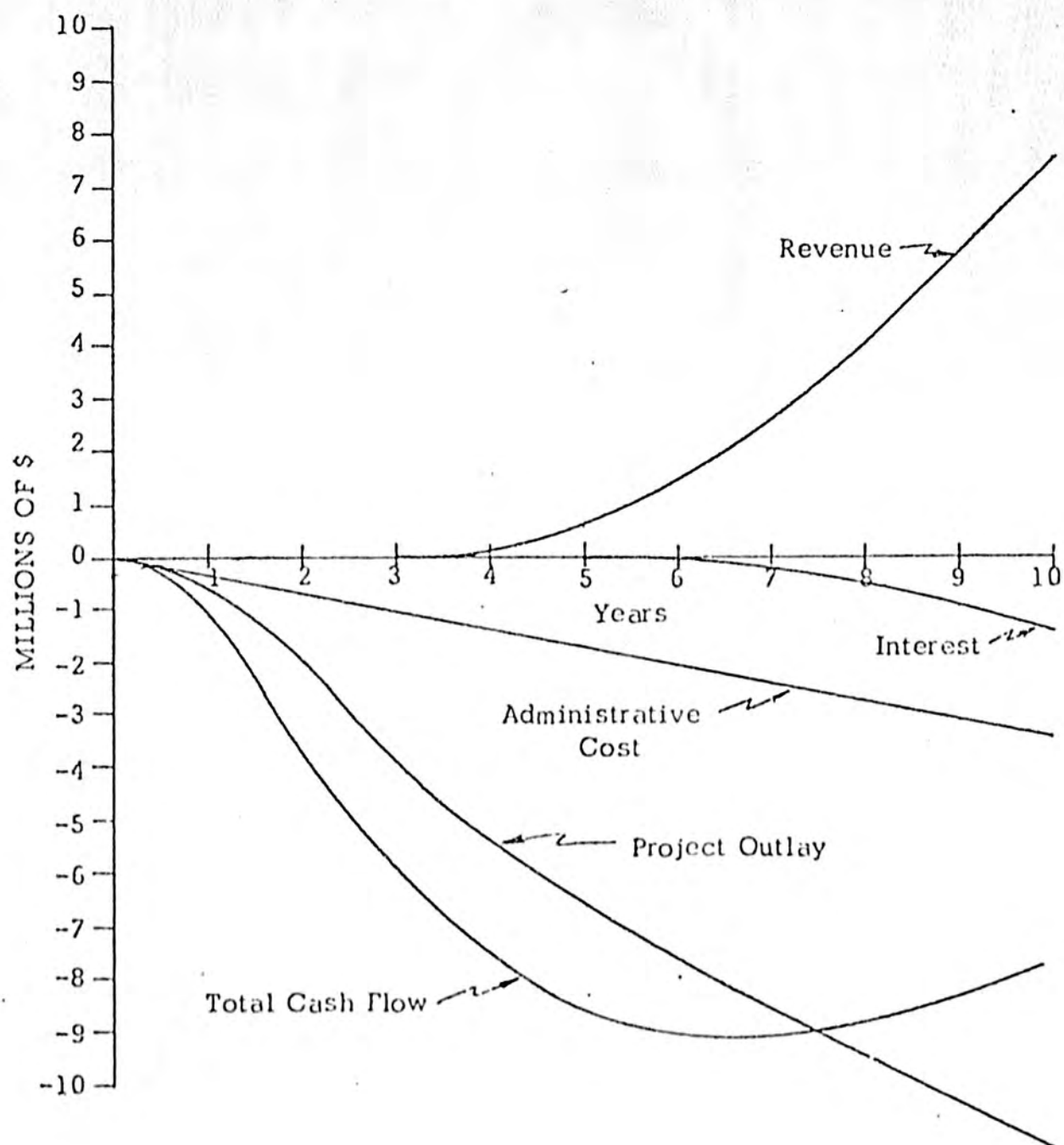
The Committee has projected the first 10 years of CPDC operation, assuming that funding is limited to that derived from the Connecticut bond issue. EXHIBIT II is a cash flow projection and EXHIBITS III and IV summarize parametric assumptions in generating the cash flow.

The gross revenue is expected to reach \$1,700,000 in the 10th year, but more importantly, \$43,000,000 of annual new business will have been created along with 3400 new jobs. Further, we estimate additional tax revenues of \$400,000 to the State and \$280,000 to local government.

It can not be over-emphasized that, up to the limit of Connecticut industrial capability, these benefits can be directly multiplied by increasing the funding available. There is every reason to believe that the new national thrust toward encouraging research and development in the private sector would favor CPDC. It is entirely reasonable to conjecture that CPDC obtain support to the extent of \$100,000,000 with the concomitant benefits including 34,000 new jobs.

CPDC has no counterpart in any other state. Its proposed format has already evoked keen interest among federal planning groups who are seeking viable mechanisms for joint government-industry efforts to increase U.S. productivity and competitive posture world-wide.

CPDC CUMULATIVE CASH FLOW PROJECTION



PARAMETERS FOR EMPLOYMENT PREDICTION

1. Direct employment of one person for every \$20,000 of sales.
2. Employment by Connecticut subcontractors is 12% of the direct employment.
3. CPDC staff and R&D staff employment at \$25,000 average cost per employee.
4. For every three jobs created in manufacturing, two additional jobs appear in the service area.