



August 31, 2012

Delivered via Email

Ms. Kristin Walker, Fiscal Research Division
Joint Legislative Commission on Governmental Operations
300 N Salisbury St, 619 Legislative Office Bldg.
Raleigh, NC 27603-5925

Re: Partnership for Defense Innovation, Annual Report Summary

Dear Ms. Walker:

Attached please find the Partnership for Defense Innovation's program activities, objectives and accomplishments for the fiscal year ending June 30, 2012. Per the State Aid Reporting Requirements, Section 14.22 (a), this report is due September 1, 2012 via email to govops@ncleg.net. As such, I am making PDI's submission packet via .pdf to that address. Should you require a hard copy of our submission, please let me know.

Please note, as of the date of this submission, PDI's audited financial statements have not been issued. Upon receipt of our financial report, we will supplement the attached with cover correspondence noting the same.

Should you have any questions or concerns as to PDI's Annual Report Summary, please do not hesitate to contact me at (910) 307-3000 or scott.perry@ncpdi.org. In the alternative, you are welcome to contact PDI's Director of Finance, Vicki Acri, at (910) 307-3016 or vicki.acri@ncpdi.org.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "R. Scott Perry", written over a horizontal line.

R. Scott Perry
President

Partnership for Defense Innovation

Attachment

The Partnership for Defense Innovation

Annual Report

Citation of Law or Resolution:	S.L. 2011-145
Section Number:	Section 14.10
Due Date:	September 1, 2012
Submission Date:	August 31, 2012

Receiving Entities:

The Joint Legislative Commission on Governmental Operations
The Fiscal Research Division

Submitting Entity:

The Partnership for Defense Innovation (PDI)

Annual Report Summary
2011 – 2012 Program Activities, Objectives and Accomplishments for the
Partnership for Defense Innovation (Defense Security Technology Accelerator)

Overview:

The Partnership for Defense Innovation, a tax exempt 501c(3) organization established in 2006, promotes economic development by supporting research and development, education and programs which have applications in defense and homeland security. The mission of PDI is to create jobs and generate revenue for the State of North Carolina using defense contracting as its catalyst. Through the Defense & Security Technology Accelerator (“DSTA”), PDI collaborates with educational institutions, the military intelligence community, State of North Carolina and private institutions by encouraging the development of technology. Our accelerator facility supports companies engaging in research and development of technologies and services associated with military and homeland security, while lessening the burden of the government. We approach our mission by combining the unique model of rapid business incubation with a federally funded lab and key relationships that contribute to the expansion of the defense and security sector of North Carolina.

PDI’s (DSTA) mission is to accelerate the delivery of cutting edge technology into the hands of the warfighter. We assist entrepreneurs, innovators and commercial entities in the development and marketing of technologies, which have dual use applications in security and defense. DSTA provides both corporate and technical in-house support through an 86-step modular process which includes coaching, mentorship, training and education. The program includes all aspects of business to government technology development, introduction, transfer and commercialization. PDI’s 15,000 sq. ft. facility houses the DSTA program and provides office space and infrastructure support to our clients at a rate well below market value. Historically, 12-15 small defense businesses and their 90+ employees generate **\$30M** into the local economy. Clients have 24 hour access to the PDI facility, which provides turn-key, Class A, fully furnished offices with amenities including three conference rooms equipped with internet connectivity, full audio/visual capability, flat screen televisions, LCD projectors and motorized screens; reception; office furniture; full kitchen; in-place white boards (in certain available offices); local telephone service; VOIP phone service; T1 internet access; security; janitorial; landscaping; parking; recycling program; water and coffee service; and mailbox.

As business accelerator, the Defense & Security Technology Accelerator program assists entrepreneurs and innovators with developing new business and dual-use technologies in a rapid (8 to 18 month) timeline. Our focus is on both military and commercial needs in the areas of defense, security and intelligence. DSTA’s center of attention is on fostering collaborative efforts, leveraging regional strengths and building connections between the Fayetteville area, Research Triangle Park, Fort Bragg, and other centers of innovation throughout the state of North Carolina and beyond. DSTA brings together the military, entrepreneurs, universities, innovators and technology companies to generate and share ideas, understand needs and develop technology solutions. It utilizes the expertise of organizations and individuals or subject matter experts, who have a deep understanding of entrepreneurs, to develop successful technology

business. DSTA provides value-added business assistance, access to a network of resources as well as professional expertise and one-on-one coaching by on-site staff and volunteers. DSTA connects these entrepreneurs with innovations developed at the universities and companies in North Carolina, along with engineering talent and know-how.

Key aspects of the DSTA program are:

- Strategic Location and access to America's Power Projection Platform – Fort Bragg (Home of USASOC, USASFC, JFCSWCS, JSOC, 82nd ABN Division)
- Market Access to Contract Decision Makers and Customers;
- Strong Relations with Strategic Partners; and
- Quick Business Decision Cycle.

FUSION Grant Recipients FY2012:

The Partnership for Defense Innovation, through the “DSTA” program awarded a total of **\$65,000** to two NC companies that competed for a Fusion Grants, to assist in the development of new technologies with a focus on defense and security. PDI offered the grants to promote economic development. Five finalists were chosen out of 24 applicants.

PDI's Fusion Grant Recipients were:

- Appealing Products: Appealing Products is a Raleigh based research and development company that won first place in the competition. They develop products that detect toxic gas and liquids, trace explosives, and poisons in food, as well as offer decontamination products. Appealing Products received a grant in the amount of **\$37,000**, in addition to a **\$13,000** client services package for PDI's DSTA program. The grant will allow the company to make the detectors more rugged for the military.
- Plexigen Inc.: Plexigen, Inc, a diagnostic company based in Cary, NC, placed second in the competition. They have created an instrument called the PlexStation, which clinically tests for biomarkers, antibodies, antigens, genes and proteins. The machine can be used for personalized medicine, food and environmental safety tests, forensics and bio-warfare agent detection. Plexigen focuses on instrumentation and service for a wide array of clinical testing. The company has developed a highly-sensitive 3-D biological microarray, the PlexCube, which overcomes the traditional 2-D array limitations of inflexibility and low throughput. This microarray is more powerful, accurate, quality assurable and more cost effective than presently available microarrays. The PlexStation 2080TM utilizes an elegant and patented design of stacking a 2-D substrate, called a PlexcardTM to form a 3-D PlexStackTM, to economically do large (and small) panels of biomarkers, antibodies, antigens, genes, and/or protein detection, on one instrument. The transformational methodology uses a very small fraction of the detection reagent used on current platforms (e.g., ELISA and other immunoassays), potentially saving laboratories millions in annual expense. The Plexigen platform is used for continuous monitoring of exposure to bioterrorism agents through pathogen detection and host response. Plexigen was awarded a grant

for **\$10,000** and a **\$5,000** DSTA client service package. The grant was used for scientist and engineer salaries.

- Immersion Media: Immersion Media (IM) was awarded a grant effective February 2011 in the amount of \$3000, bringing the full awarded grant amount from 2009 to 2011 to **\$51,637**. The grant was utilized for the application, design, development, modification and finalization of its 3D animation technology for military training at The Advanced Airborne School at Fort Bragg, NC, and Army-wide. IM produced a cutting-edge, interactive, multimedia tool that Jumpmasters will use on an ongoing basis to recall, refine, and simplify the challenging tasks they must perform. It is expected this tool will provide significant savings to the military on future projects. During this two year period, PDI assisted with the development of the business plan, introduced technology to potential business partners; help develop marketing collateral and training on government contract arena. Final payment to Immersion Media was made in Dec 2011.

Total Fusion grants awarded for FY2012 was **\$35,377**, as well as **\$18,000** in DSTA client services.

Rural Business Enterprise Grant (RBEG) – Revolving Loan Fund Plan:

PDI participated in the North Carolina Rural Business Enterprise Grant (“RBEG”), Revolving Loan Fund Plan (“RLF”) during FY2011 and FY2012, receiving a grant of **\$75,000** to start a revolving loan fund. PDI awarded the loan to an emerging small business, KBR-T, Inc.

The RBEG program is a federal program, which provides grants for rural projects that finance and facilitate development of small and emerging rural businesses, and any project funded under the RBEG program should benefit the same. Small and emerging private businesses are those that will employ 50 or fewer new employees and have less than \$1 million in projected gross revenues. A rural area is defined as any unincorporated area and any city with a population of 50,000 or less, according to the latest decennial census.

The RLF program is used to provide financial assistance to third parties within the guidelines of this plan. Loans can be amortized over the lesser of seven years or life of the security. The interest rate will typically not exceed prime rate by more than 2%. The rate is determined by PDI’s Board’s Loan Committee. The loan is usually interest only for the first year. As principal is paid back to PDI, the funds are segregated into a revolving loan account to be distributed as smaller loans, \$2,500 minimum. The revolving loan function enables the initial grant to fund other emerging business indefinitely. This program is monitored by the United States Department of Agriculture (“USDA”).

As the grantee, PDI must provide sufficient evidence to show that it is properly organized and has the authority to carry out the purposes of the grant. Quarterly reporting is required to ensure performance objectives are being achieved. The recipient of the loan goes through a rigorous evaluation to determine eligibility and ability to repay the loan. The paperwork is submitted to the USDA RBEG office for their review and approval.

KBR-T, Inc, located in Cameron, NC, was founded in May 2010 as a Service Disabled Veteran Owned Business. KBR-T builds mobile towers which serve as a multi-purpose platform for an assortment of communications systems and state-of-the-art security technologies. The loan has allowed KBR-T to add three employees to take their working model to market. They are current on their loan payments to PDI.

Members of the DSTA Program (July 2011 – June 2012):

Below is narrative of representative client's within the DSTA program during this time period:

- **K3 Enterprises, Inc.** is a Service Disabled Veteran business specializing in geospatial data management, geospatial data and visual products, communications and information technology. Services include program management, personal and physical security, technology testing, and independent technology assessment. K3 was the first graduate of the DSTA program, growing from 3 to over 50 employees and purchasing their own 50,000 sq. f.t building at the end of 2011.
- **Future Technologies, Inc.** is an 8(a) certified business supporting US Army intelligence efforts in IRAQ. FTI is a subcontractor on the U.S. Special Operations Command Mission Planning Environment Program Office contract (SOMPE), which provides mission, planning, rehearsal, and execution support to the Joint SOF Warfighter at all echelons of command from a Special Forces Operational Detachment (SFODA) or Seal Platoon to a Joint Special Operations Task Force (JSOTF). FTI currently has 2 employees at PDI's facility.
- **LVC Corporation** is a small Service Disabled Veteran Owned company providing research development, test, evaluation and acquisition consultation supporting market surveys and white papers to facilitate the transitioning the theoretical to the possible. LVC has grown from three to eight employees, and collaborates with PDI's Research and Development Lab for testing and evaluation.
- **Operations Services, Inc.** is a small defense contracting company founded in July 2010 as a Service Disabled Veteran Owned Small Business that seeks to service the needs and requirements primarily of government organizations involved in national security, defense and homeland security. OSI is a disadvantaged Small Business, minority owned, applying for SBA 8(a) status and is a participant in the GSA Mentor Protégé program. OSI has grown from two to five employees and earned revenue of \$240,000.
- **The North Carolina Defense Business Association** is comprised of a group of businesses with interests in military contracting, government affairs and supporting the state's military installations. The focus of NCDBA is to provide information to defense contractors to enhance their contracting capability to benefit from this economic opportunity in North Carolina. The Association is comprised of a vast networking group of defense contractors, private businesses, Chambers, Economic

Developers, municipalities, military leadership, Universities, and Community Colleges that is reaching across the state to provide a networking opportunity that promotes doing business in North Carolina. Currently the membership is reaching 300 members across the state.

- **National Organization of Disability** promotes employment and the full participation of Wounded Warriors with disabilities in all aspects of life. They manage and learn from employment demonstration programs and research and communicate what works, helping the most severely injured veterans of the wars in Iraq and Afghanistan to move forward on career paths. “Bridges to Business Program” that helps employers hire, train, and retain job-seekers with disabilities is part of the NOD activities. NOD currently has three employees at PDI’s facility.

In addition to the above, the following companies were active Resident and Affiliate clients during this period of performance:

- DynCorp.;
- CREC Group;
- CSG Solutions;
- BOSH;
- AnthroTronix;
- CamNet Tech;
- APSG;
- CCIS;
- Coyle Industries;
- ArchAngel; and
- KnowledgeVector.

Training and Client Representation provided during FY 2012:

PDI engaged industry experts in the legal, accounting, banking, contract management and consulting service providers to conduct training for small business owners. In total, 14 training sessions and opportunities were conducted in the following areas:

- Held monthly collaborative breakfasts;
- General Services Administration (“GSA”) Mentor Protégé Program;
- QuickBooks & Defense Contract Audit Agency (“DCAA”) Compliance;
- Other Conflicts of Interest and Federal Acquisition Regulation (“FAR”) Training;
- Closing out Contracts;
- Finance Options for Small Business;
- Strategic Consulting Solutions (“SCS”) Lunch and Learn; and
- Shipley Training in Federal Contract Certification.

PDI supported clients and the DSTA program at the following community events, providing introductions and access to key individuals to help clients direct their business to potential business partners:

- 9th Defense Workgroup meeting;
- Military and Non-Commissioned Officers Association (“NCOA”) Career Expo;
- Governor’s Summit at Fort Bragg;
- Ft. Bragg Regional Alliance – Community Meeting; and
- Wounded Warrior Programs.

PDI Research and Development Lab

PDI Research and Development Laboratory. PDI’s 10,000-square foot, accredited Research & Development Laboratory is a leading integrator of special communications devices and network architectures, as well as a custom provider of electromagnetic interference/capability (EMI/EMC) and environmental testing. The PDI R&D Lab and its fulltime staff offer expertise in Research, Development, Testing and Evaluation (RDT&E) with specific application to Command, Control, Computers, Communications, Intelligence, Surveillance and Reconnaissance (C4ISR) military operations and systems integration. PDI’s engineers are experienced in the design, development, electromagnetic radio frequency emission and environmental testing, and product life cycle workmanship of special communications devices, including testing products for temperature, humidity and altitude. PDI is accustomed to managing complex R&D projects from concept development through prototype delivery and supporting sensitive client missions in organizations including the Combatting Terrorism Technical Support Office (CTTSO) / Technical Support Working Group (TSWG), the Counter-Narcoterrorism Program Office (CNTPO), and the United States Special Operations Command (USSOCOM) with tailored, military-standard test plans.

The Partnership for Defense Innovation’s Research and Development Lab is the anchor tenant of the All American Military Business Park. The R&D Lab also currently serves as the only tenant of the Business Park. PDI constructed, staffed and now operates this state of the art R&D facility through more than ***\$4.7M congressional funding***.

The core competencies of the 10,000 square foot, accredited PDI R&D Lab includes:

- C4ISR Engineering Services, Support and Integration
 - Feasibility, Design, Development, Networking, Integration & Testing
 - Systems Requirements and Critical Design
 - Software Design
 - System Validation
 - Technical Support
- Special Communications
 - Cellular
 - Wireless
- Electronic Tradecraft / Digital Forensics
- Configuration Management

- EMC / EMI / RF Emissions / Environmental Testing
- Program Management, Project Management, Staff Augmentation, Training

The PDI R&D Lab facility features:

- A 36'x36'x18' Semi-Anechoic Chamber for MIL-STD-461E testing with 24' turntable with capacity to handle heavy vehicles up to 55,000 lbs.
- An environmental testing lab with three chambers designed to test to MIL-STD 810, including the effects of temperature, humidity and altitude on products and equipment
- Connection to the NC Research and Engineering Network (NCREN), a 100-Megabit-per-second Ethernet connection peered to networks such as the Internet2, National Lambda Rail and the Defense Research and Engineering Network (DREN)
- An indoor high bay allowing for vehicular modification and testing
- A spacious classroom with a 25-person capacity and wireless internet throughout
- U.S. Department of Defense facility security clearance

R&D Lab supported the following Department of Defense customers during this period of performance:

- U.S. Special Operations Command (USSOCOM)
- U.S. Joint Special Operations Command (JSOC)
- U.S. Army Special Operations Command (USASOC)
- U.S. Army John F. Kennedy Special Warfare Center & Schools (USAJFKSWCS)
- Combatting Terrorism Technical Support Office (CTTSO)
 - Technical Support Working Group (TSWG)
- Headquarters, Communications and Electronics Command (CECOM)
 - Information and Intelligence Warfare Directorate (I2WD)

NAICS Codes and Descriptions

541330	Engineering Services
541380	Testing Laboratories
541512	Computer Systems Design Services
541611	Administrative Management and General Management Consulting Services
541690	Other Scientific and Technical Consulting Services
541712	Research and Development in the Physical, Engineering, and Life Sciences
541990	All Other Professional, Scientific and Technical Services
561499	All Other Business Support Services

Partnership for Defense Innovation
Profit & Loss
July 2011 through June 2012

	<u>Jul '11 - Jun 12</u>
Ordinary Income/Expense	
Income	
40100 · Corporate and Business Grants	0.00
40900 · Individ, Business Contributions	4,750.00
41100 · Department of Commerce	700,000.00
42100 · Interest-Savings, Short-term CD	1.60
42150 · Interest - Loan Program	3,937.56
43050 · Program Revenue- PDI R&D Lab	61,302.69
43100 · Nonresident Client Revenue	17,810.00
43500 · Rent Revenue	
43550 · Discount on Rent Revenue	(45,985.00)
43500 · Rent Revenue - Other	192,942.13
Total 43500 · Rent Revenue	<u>146,957.13</u>
43600 · Contract Income	2,625,238.05
43800 · Miscellaneous Revenue	27,833.28
Total Income	<u>3,587,830.31</u>
Cost of Goods Sold	
Total 50000 · Direct Costs	<u>1,989,174.93</u>
Total COGS	<u>1,989,174.93</u>
Gross Profit	1,598,655.38
Expense	
Total 51000 · Fringe Benefits	399,850.17
52000 · Overhead	
52110 · Overhead Labor	46,329.35
52125 · Awards and Grants	
53240 · Fusion Grant	35,377.10
Total 52125 · Awards and Grants	<u>35,377.10</u>
Total 52300 · Facilities and Equipment	296,550.17
Total 52000 · Overhead	492,661.92
Total 54000 · Overhead - Raleigh	4,702.66
Total 56000 · Overhead - R & D Lab	61,257.00
Total 57000 · Overhead - Executive Workspace	24,475.83
Total 60000 · General & Admin Expenses	578,888.58
Total 62100 · Contract Services	40,999.00
Total 70000 · Unallowable Expenses	<u>53,950.27</u>
Total Expense	<u>1,667,560.40</u>
Net Ordinary Income	(68,905.02)
Other Income/Expense	
Other Expense	
80000 · Sales Tax	2,690.18
Total Other Expense	<u>2,690.18</u>
Net Other Income	<u>(2,690.18)</u>
Net Income	<u>(71,595.20)</u>