

PARTNERSHIP FOR DEFENSE INNOVATION – Defense Security Technology Accelerator (DSTA) Program

ORGANIZATION OVERVIEW AND IMPACT

1. MISSION & PROGRAMS

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”) program, 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 rates well below market value. Clients have 24-hour access to the secured PDI facility, which provides turn-key, Class A, fully furnished offices with amenities that include: three conference rooms equipped with internet connectivity, full audio/visual capability, flat screen televisions, LCD projectors and motorized screens; lobby with receptionist; office furniture; full kitchen; in-place white boards (in certain available offices); local telephone service; VOIP phone service; T1 internet access; monitored security; janitorial; landscaping; parking; recycling program; water and coffee service; and mailboxes.

As business accelerator, the DSTA 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. The program provides tailored mentorship, coaching, training, technology development assistance, networking opportunities, market analysis, bidding support and more. In particular, the 86-Step Process the DSTA clients

undergo prepares them to withstand the rigors of a Defense Contract Audit Agency (“DCAA”) audit. 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. The DSTA program connects entrepreneurs with innovations developed at the universities and companies in North Carolina, along with engineering talent and know-how. PDI’s DSTA program engages its members in activities that not only increase their visibility to the government, but define their company infrastructure. Since its inception, the DSTA Program has become an epicenter for entrepreneurship and a leader in the development of cutting-edge defense technologies and services.

PDI also staffs and operates its Research and Development Laboratory, which is the anchor (and only) tenant of the All American Military Business Park in Fayetteville, NC. PDI initially constructed and operated this state-of-the-art R&D facility for its first three years with \$4.7M in congressional funding, and other contracts awarded to PDI through the government bidding process. This facility is 10,000-square foot, accredited Research & Development Laboratory and 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 United States Special Operations Command (USSOCOM), United States Army Special Operations Command (USASOC), Combatting Terrorism Technical Support Office (CTTSO) / Technical Support Working Group (TSWG), the Counter-Narcoterrorism Program Office (CNTPO), all with tailored, military-standard test plans.

2. CUSTOMER/TARGET POPULATION

The City of Fayetteville and Cumberland County immediately benefit from the DSTA program’s existence. Historically, 10+ small defense businesses and the 50+ employees housed in PDI’s offices have generated \$30M into the local economy. Further benefiting from DSTA’s existence is the military community, both locally at Ft. Bragg and worldwide, thru PDI’s DSTA clients and its R&D Lab.

3. ORGANIZATION INCEPTION

PDI’s DSTA program was established in 2006, and continues to operate and execute its Mission.

4. FOOTPRINT

Our program’s outreach extends beyond the State’s borders, but our immediate focus and impact is on economic development for North Carolina, with targeted focus in Cumberland County and the City of Fayetteville.

5. ORGANIZATIONAL BUDGET

PDI's fiscal calendar year runs from July 1st thru June 30th, and provides the below table related to our overall organizational budget:

	FY2007-08	FY2008-09	FY2009-10	FY2010-11	FY2011-12
Total Expenditures	\$1,544,150	\$2,985,923	\$3,780,968	\$3,221,828	\$3,662,448
GF Appropriation	\$1,500,000	\$1,365,000	\$950,000	\$916,750	\$700,000
Other Funding Sources	\$489,586	\$1,435,821	\$2,737,682	\$2,430,219	\$2,889,330

The "Other Funding Sources" referenced in the above chart are comprised of (early years) Federal Appropriations, on-going Federal Contracts via our Research and Development Lab, and revenue generated from DSTA clients via their program fee and building rent/expenses.

6. SALARY COMPLIANCE

PDI/DSTA has one employee that annually earns over \$120,000 that is funded utilizing a portion of the State grant. PDI has other employees with an annual salary exceeding the \$120,000 threshold, however there are no State funds utilized for those employees. For the one employee that earns over \$120,000 annually, 60% is funded via the NCGA grant, and the remaining 40% of the salary is paid for via PDI's other funding sources.

PDI's benefits package includes medical insurance, prescription drug plan, and a comprehensive vision and dental plan. Further, PDI provides each employee disability coverage. This coverage includes short and long term disability, life insurance and accidental death and dismemberment insurance. We provide our employees eleven holidays per year, which follow along the federal schedule. In addition to those holidays, PDI provides its employees ten days of vacation, five sick days and two personal days per calendar year. Employees with five plus years of service with PDI have additional paid time off allotted based on their time with our company.

7. LOBBYING SERVICES

For the calendar year 2012, PDI engaged the lobbying services of Southern Strategy Group of North Carolina. PDI paid its principal registration fee of \$100 to the State, and no further funds were expended. PDI has zero employees that are registered as lobbyists.

8. KEY PERFORMANCE INDICATORS

PDI measures its effectiveness and return on investment for the State of North Carolina via the economic development and impact provided to the State and local economy. PDI is able to demonstrate that the funds it is provided via the State directly impact the economy thru jobs, business success and related revenue. PDI and its programs, the Defense and Security Technology Accelerator and the Research and Development Lab, are very successful. PDI only receives \$700K in public funding, yet operates a 20 employee workforce with multiple locations including a multi-million dollar state-of-the-art, TOP SECRET accredited research and

development facility in Fayetteville, NC. Representative performance indicators are:

- The Partnership for Defense Innovation's Research and Development Lab is the anchor tenant, and only tenant, of the All American Military Business Park. PDI constructed, staffed and now operates this state-of-the-art R&D facility through more than \$4.7M in congressional funding. This congressional funding was the initial funding provided to stand-up the R&D Lab, and the Lab has since sustained due to contracts awarded to PDI's thru its efforts in the government bidding process.
- The Defense & Security Technology Accelerator has coached, mentored, trained and educated more than 50 companies with funding received from the NC General Assembly. There are many success stories:
 - K3 Enterprises, the first DSTA client, grew from 3 to 50 employees, graduated the DSTA program, purchased the former Sears building on Cumberland Street and currently leases portions of this building to a Federal client. K3 continues to up-fit the remainder of the building while occupying the entire third floor of the Festival Park Plaza building, which is owned by the City of Fayetteville. Prior to graduating the DSTA program, the third floor of this facility was empty. K3 conducts corporate operations and training from this location and exceeded \$10M of annual revenue after graduating the DSTA program.
 - Another former DSTA client, Strategic Solutions Unlimited (SSU), upon moving from the DSTA Ramsey Street location, purchased an office building in downtown Fayetteville and subsequently, purchased a second building in downtown Fayetteville where they conduct corporate operations and training for government clients.
- DSTA has provided numerous companies more than \$200,000 in seed funding and in-kind services for business startup, operations and commercialization efforts, including, but not limited to:
 - Immersion Media – (Fayetteville) received a \$47,000 grant from PDI/DSTA for the development of a military training program.
 - Appealing Products - (Raleigh) received a \$50,000 grant from PDI/DSTA, plus DSTA services, for the development of a wireless bio-chemical agent detector.
 - KBRT Inc. - (Cameron) received a \$75,000 loan under the USDA Rural Business Enterprise Grant (RBEG) to complete the commercialization of a 150 foot communications tower. PDI/DSTA is the administrator of this loan with USDA.

Currently, the number of clients, tenants and PDI staff that is based in Fayetteville is approximately sixty. This equates to sixty individuals who are on a payroll that has related taxes that the State and local economy benefit directly from, as well as sixty families that live and shop locally, and strengthen the economy. This is at the individual level. At the company level, the representative companies above, and those not listed but within PDI's office building and those program graduates, have effectively hired employees and grown business to put \$30M plus into the State of North Carolina and the local economy of Fayetteville.

The exponential growth PDI continues to provide via generation of jobs and revenue to the State of North Carolina, while its funding continues to drop, is a strong indicator of the level of success and commitment this program brings to the State.

9. SIMILAR ORGANIZATIONS

To our knowledge, there are no other state agencies and nonprofits that pursue similar objectives as PDI in a similar manner and/or field. There are economic development programs that operate within the State, but not within PDI's direct footprint with the focus on technology development in North Carolina and the military/defense sector.

10. BUDGETARY IMPACT

The loss of this funding will be extremely detrimental, as would be any implementation of a self-supporting goal/timeframe. While PDI does utilize the tool of federal contracting to augment its revenue, any profit that is made beyond providing payroll, benefits, and facility costs, are provided to the DSTA program to assist in the program's state-funding shortfall. With the current state of contracting, this isn't a feasible long-term solution or reliance. As PDI has experienced a cut in its funding annually, since inception, it has had to adapt each time. During this last fiscal year, we have had to reduce our staff as a direct result of the diminishing funding. Loss and/or additional reduction of funding will result in the additional loss of jobs, plus the streamlining and possible elimination of the DSTA program. PDI's downtown Fayetteville facility would more than likely be reduced to an office building with small offices for rent without coaching, training or introduction programs available to our startup companies. At this time it is unknown how long PDI would maintain its facility without another year of funding.

If the decision is made to eliminate the DSTA program due to lack of NCGA funding, this will displace eight companies and more than 40 workers, not taking into consideration PDI staff. Several of the current DSTA clients conduct operations both nationally and internationally. Example, the DSTA facility currently houses the National Organization on Disability/Wounded Warrior Program (NOD), which has three employees who work in this building, including the Program's Deputy Director. NOD is currently in the process of opening new offices in Pennsylvania and California, and its Fayetteville office will serve as the IT hub for all new offices and support other existing IT infrastructure through an administrator in Fayetteville. Closure of this facility will affect their national operation. Another DSTA client who has resided in the facility for several years now, LVC Inc., currently conducts communication testing in a lab located in the Ramsey Street facility. This testing is conducted for a government Program Manager and supports the Special Operations Forces Survivability Systems program. Loss of the DSTA facility will displace eight LVC employees, close their lab capabilities and have a negative impact on LVC as a company as well as their government client.

In closing, loss of the State's funding could result in the elimination of the DSTA program and possible closure of the Ramsey Street facility, which will have a negative impact at every level, including Local, State, National and International levels. PDI strongly urges you to support the continued funding for the Defense & Security Technology Accelerator program in the amount of \$800,000.00.