



# State of Connecticut

SENATOR LEONARD A. FASANO

SENATE REPUBLICAN PRESIDENT PRO TEMPORE

34<sup>TH</sup> DISTRICT

LEGISLATIVE OFFICE BUILDING  
300 CAPITOL AVENUE, SUITE 3400  
HARTFORD, CONNECTICUT 06106-1591  
[www.SenatorFasano.com](http://www.SenatorFasano.com)

HARTFORD: (860) 240-8800  
TOLL FREE: (800) 842-1421  
FAX: (860) 240-8306  
[Len.Fasano@cga.ct.gov](mailto:Len.Fasano@cga.ct.gov)

July 11, 2018

Catherine Smith, Commissioner  
Connecticut Department of Economic and Community Development  
505 Hudson Street  
Hartford CT 06106

Dear Commissioner Smith:

Initially, I was cautiously optimistic hearing about Seven Stars Cloud (SSC) decision to establish its North American headquarters in the Greater Hartford area. However, upon further investigation and analysis by staff and concerned taxpayers, I'm perplexed regarding DECD's decision and therefore I am writing to seek more information regarding the decision to offer a \$10 million loan to a company that does not earn any money and is less stable than originally reported.

I ask that you please provide the Senate Republican Office a copy of DECD's analysis and/or recommendation to provide said financial assistance to SSC. In addition, provide any supporting documentation, calculations, quantitative and qualitative data, used to determine using \$10 million of taxpayer resources, to assist a company not generating profits and has less than ideal and unfavorable financial indicators.

If Seven Stars Cloud provided DECD with a business plan, please forward a copy to my office.

Additional concerns and questions are as follows. I would appreciate receiving responses to my questions and further explanation addressing these concerns:

1. According to SEC filings, SSC has a dismal gross profit of \$389,495 on roughly \$186 million of revenue, which is alarming.
2. The company is losing money and burning through cash quickly. It's not sustainable.
3. A significant number of ratios and metrics used to gauge the company's financial health are unfavorable and severely depressed. For instance, for every dollar invested in assets, the company returns less than eighty-two cents. For every dollar of capital invested, less than seventy-four cents is returned.

Catherine Smith, Commissioner  
July 11, 2018  
Page 2

4. Wall Street typically rewards growth stocks (especially innovative technology companies with perceived upside) with higher than industry average price-to-earnings ratios (P/E ratio), SSC's P/E ratio at the time of this writing was -13.69. In short, traders and analysts do not view SSC as a growth stock.
5. A review of the company's financial statements reveals little investment in research and development (R & D) and little to no asset allocation for patents. Moreover, SSC does not generate sufficient free cash flow from operations to justify a \$10 million loan not to mention the company lacks financial capacity to address a more than \$280 million project. Does DECD believe SSC has the resources to produce a \$283 million project?
6. SSC has had two major accounting firms conduct its audits and is now on its third accounting firm in two years. Has DECD asked questions regarding the frequent changing of accounting firms? Why three accounting firms in such a short period of time?

There are additional concerns; however, what is listed above are the most pressing. I am very concerned about the soundness of this deal, especially against the backdrop of DECD's spotty record. The fact of the matter is Seven Stars Cloud does not make money, lacks capacity to invest seriously in innovation, has multiple unfavorable ratios and is burning through whatever cash it and its shareholders have at a rapid pace. It's on borrowed time, something their auditors have emphasized and noted.

I look forward to receiving the requested information and an agency response to my concerns.

Sincerely,



Len Fasano  
Senate Republican President Pro Tempore