

InvestMaryland

ANNUAL STATUS REPORT

Economic Development Article

SECTION 6-529

Submitted by:

Maryland Department of Business and Economic Development

January 1, 2013

Overview

Pursuant to Section §6–529 of the Economic Development Article as amended (the “Act”), on or before January 1st of each year beginning in 2013, the Department of Business and Economic Development (the “Department”) shall submit a report on the implementation of the InvestMaryland Program (the “Program”) to the Governor and, in accordance with § 2–1246 of the State Government Article, to the Senate Budget and Taxation Committee and the House Ways and Means Committee.

The Program became fully operational in calendar year 2012, and this is the second Annual Report. Section §6–529 of the Act requires information only with respect to the previous fiscal year, which in this case is the fiscal year ending June 30, 2013. In order to provide the most up to date information on the Program, however, the Department is also providing information through December 31, 2013 to the extent that it is available.

The Program was established in 2011 with the passage of the Act, and much of the foundation for the Program was laid that year with the formation of the Maryland Venture Fund Authority (the “Authority”) and the Authority’s selection of consultant Grant Street Group to run the online auction of premium tax credits and Altius Advisors to advise the Authority on the selection of private venture funds. The online auction of \$100,000,000 of premium tax credits was conducted on March 15, 2012, and the auction yielded \$84,000,000 in proceeds which will be paid to the State by the insurance company purchasers over a three year period beginning in June 2012. Meanwhile, the Authority adopted a private venture fund investment strategy in consultation with Altius Advisors, and in June 2012 based on Altius Advisors’ recommendations the Authority selected and prioritized the venture firms to be considered for investment.

I. Purchasers of Premium Tax Credits

The following insurance companies are purchasers of premium tax credits under the Program for the amounts of premium tax credits indicated:

Purchasers	Amount Awarded	Price	Designated Capital Contributed	Amount Transferred Under § 6–514
The Hartford Financial Services Group	\$35,000,000	\$29,400,000	\$19,600,000	\$0
Metropolitan Life Insurance Company	\$22,500,000	\$18,900,000	\$12,600,000	\$0
Medical Mutual Liability Insurance Society of MD	\$10,000,000	\$8,400,000	\$5,600,000	\$0
New York Life Insurance Company	\$10,000,000	\$8,400,000	\$5,600,000	\$0
Chubb — Federal Insurance Company	\$6,100,000	\$5,124,000	\$3,416,000	\$0
Selective Insurance Group, Inc.	\$5,000,000	\$4,200,000	\$2,800,000	\$0
GEICO	\$4,900,000	\$4,116,000	\$2,744,000	\$0
Travelers	\$2,500,000	\$2,100,000	\$1,400,000	\$0
Chubb — Great Northern Insurance Company	\$2,000,000	\$1,680,000	\$1,120,000	\$0
Agency Insurance Company of Maryland Inc.	\$1,000,000	\$840,000	\$560,000	\$0
Injured Workers Insurance Fund	\$1,000,000	\$840,000	\$560,000	\$0
TOTAL	\$100,000,000	\$84,000,000	\$56,000,000	\$0

II. Venture Firms Receiving an Allocation of Designated Capital

Of the \$84,000,000 in designated capital raised in the premium tax credit auction, 67% or \$56,280,000 is allocated by statute to investments in private venture firms that commit to investing that amount in Qualified Businesses in the State. From among the 37 venture firms that applied for InvestMaryland investment, the Authority selected and prioritized firms for investment. It is anticipated that the InvestMaryland private venture fund investment allocation will be invested in a total of eight venture firms. Seven venture firm investment commitments have closed to date and negotiations are underway with a final eighth firm.

The following venture firms have received commitments of designated capital, although the capital will be called over the 10-year life of each fund.

Venture Firm	Address	Qualified Individuals	Designated Capital Committed	Designated Capital Received in FY13	Cumulative Designated Capital Rec'd	Designated Capital Remaining Uncalled	Amount of Qualified Distributions in FY13
Grotech Ventures II, L.P.	230 Schilling Circle Suite 362 Hunt Valley MD 21031	Frank Adams Chuck Cullen Steve Frederick Don Rainey Lawson Devries	\$12,000,000	\$1,157,755	\$4,439,865	\$7,560,135	\$0
New Atlantic Fund IV, LLC	11911 Freedom Dr. Suite 1080 Reston, VA 20190	John Backus Thanasis Delistathis Todd Hixon Scott Johnson	\$8,000,000	\$0	\$534,308	\$7,465,692	\$0
EnerTech Capital Partners IV L.P.	Building D Suite 105 625 W. Ridge Pike Conshohocken, PA 19428	Tucker Twitmyer	\$7,000,000	\$0	\$0	\$5,702,520	\$0
Kinetic Ventures IX, L.P.	2 Wisconsin Circle Suite 620 Chevy Chase, MD 20815	Jake Tarr William Heflin Nelson Chu	\$5,000,000	\$273,048	\$1,171,848	\$3,828,152	\$62,708
Foundation Medical Partners Fund IV, L.P.	105 Rowayton Ave Rowayton, CT 06853	Lee Wrubel Andrew Firlik	\$10,000,000	\$0	\$0	\$9,375,000	\$0
Core Equity Partners III, L.P.	1401 I Street N.W. Suite 1000 Washington, DC 20005	William Dunbar	\$4,346,000	\$1,351,766	\$1,351,766	\$2,994,234	\$0
New Markets Education Partners, L.P.	8161 Maple Lawn Boulevard, Suite 350 Fulton, MD 20759	Rob Doub	\$3,000,000	\$1,155,000	\$1,155,000	\$1,845,000	\$0
			\$49,346,000	\$5,860,049	\$10,575,267	\$38,770,733	\$62,708

The venture firms invested \$8,744,997 in the following Qualified Businesses in the State of Maryland through 2013, which in turn leveraged \$30,455,003 in additional private investment as indicated:

Venture Firm	Name and Location of Qualified Businesses	Amount Received by Qualified Business	Valuation	Additional Private \$\$ Leveraged
Core Equity Partners III, L.P.	Luminal, Inc. 47 All Saints Street Frederick, MD 21701	\$150,000	\$150,000	\$750,000
Core Equity Partners III, L.P.	ZeroFOX, Inc. 1111 Light Street, 3rd Floor Baltimore, MD 21230	\$750,000	\$750,000	\$1,450,000
Grotech Ventures II, L.P.	Optoro, Inc. 5001 Forbes Boulevard Lanham, MD 20706	\$5,999,997	\$5,999,997	\$23,250,003
Kinetic Ventures IX, L.P.	Weather Analytics, LLC 3 Bethesda Metro Center, #508 Bethesda, MD 20814	\$345,000	\$345,000	\$905,000
New Atlantic Fund IV, LLC	Bambeco, Inc. 3430 2nd Street, Suite 300 Baltimore, MD 21225	\$1,000,000	\$1,000,000	\$2,000,000
New Markets Education Partners, L.P.	CES Acquisition Corp. 10713 Gilroy Road, Suite B Hunt Valley, MD 21031	\$500,000	\$500,000	\$2,100,000
		\$8,744,997	\$8,744,997	\$30,455,003

*All reported figures for FY 2013 are for the time period up to and including 12/31/2013

III. The Enterprise Fund (Maryland Venture Fund)

The Enterprise Fund (the “Maryland Venture Fund” or “MVF”) undertook to implement the Authority’s recommendations regarding the selection of venture firms for allocations of designated capital under the Program. This has entailed negotiating the terms of investment with each venture firm. As noted above, commitments in seven venture firms have been closed, and MVF is currently in negotiations with an eighth and final venture firm. All firms that receive allocations must commit to investing in Qualified Businesses located in Maryland an amount equal to the State’s investment commitment in that firm.

In addition to implementing that portion of the Program that invests in private venture firms, MVF has also been actively implementing the direct investment portion of the Program. As noted above, 67% of the designated capital raised in the premium tax credit auction is allocated to private venture firm investments. Of the remaining third; after first deducting \$250,000 allocated to the Rural Maryland Council, 75% is allocated to MVF for direct investment. Designated capital received by MVF in FY2013 and cumulative through June 30, 2013 is as follows:

Designated Capital Allocation	Designated Capital Received in FY2013	Cumulative Designated Capital Received	Designated Capital Remaining Uncommitted to Date
\$20,602,500	\$6,742,500	\$13,485,000	\$6,236,211

MVF received the second (of three) installments of its allocation of designated capital in June 2013 and therefore was able to invest those funds only after the end of the 2013 fiscal year. Through December 31, 2013, MVF invested in a total of twenty-three Qualified Businesses as follows:

Qualified Business	Location	Designated Capital Received by Qualified Business in 2013	Total Committed Incl. Encumbered Follow-on Reserve	Valuation
20/20 Gene Systems, Inc.	Montgomery County	\$150,000	\$150,000	\$150,000
3CLogic, Inc.	Montgomery County	\$390,000	\$390,000	\$390,000
6th Street, Inc., dba SalesWarp	Baltimore City	\$500,000	\$1,000,000	\$500,000
Bambeco, LLC	Baltimore City	\$850,000	\$1,120,000	\$850,000
BrainScope Company, Inc.	Montgomery County	\$250,000	\$750,000	\$250,000
CES Acquisition Corp.	Baltimore County	\$400,000	\$800,000	\$400,000
GrayBug, LLC	Baltimore City	\$300,000	\$1,200,000	\$300,000
InstantLabs Medical Diagnostics Corp.	Baltimore City	\$150,000	\$150,000	\$150,000
Job On Corp.	Queen Anne's County	\$150,000	\$150,000	\$150,000
Luminal, Inc.	Frederick County	\$200,000	\$800,000	\$200,000
Maxtena, Inc.	Montgomery County	\$1,010,000	\$1,370,000	\$1,010,000
Pathsensors, Inc.	Baltimore City	\$200,000	\$400,000	\$200,000
Plasmonix, Inc.	Baltimore County	\$250,000	\$250,000	\$250,000
Pulse 8, LLC	Anne Arundel County	\$500,000	\$1,500,000	\$500,000
ReelGenie, LLC	Montgomery County	\$150,000	\$450,000	\$150,000
Social Toaster, Inc.	Baltimore City	\$400,000	\$600,000	\$400,000
Theranostics Health, Inc.	Montgomery County	\$250,000	\$250,000	\$250,000
Weather Analytics, LLC	Fairfax County	\$500,000	\$1,500,000	\$500,000
Zenoss, Inc.	Anne Arundel County	\$148,789	\$148,789	\$148,789
Zeuss, Inc.	Talbot County	\$500,000	\$1,500,000	\$500,000
		\$7,248,789	\$14,478,789	\$7,248,789

*All reported figures for FY 2013 are for the time period up to and including 12/31/2013

IV. The Maryland Small Business Development Financing Authority

As noted, 67% of the designated capital raised in the premium tax credit auction is allocated to private venture firm investments; after first deducting \$250,000 allocated to the Rural Maryland Council, 25% of the remainder is allocated to the Maryland Small Business Development Financing Authority (“MSBDFA”) for direct investment. Designated capital received by MSBDFA in FY2013 and cumulative through June 30, 2013 is as follows:

Designated Capital Committed	Designated Capital Received in FY 2013	Cumulative Designated Capital Rec'd	Designated Capital Remaining Uncommitted
\$6,867,500	\$2,287,717	\$4,535,217	\$4,535,217

As of June 30, 2013, MSBDFA was in discussion with three businesses for InvestMaryland but not committed. In current FY 2014, MSBDFA has committed \$200,000 to one qualified business and is scheduled to approve another \$200,000 investment in another qualified business by December 31, 2013

V. Qualified Businesses

With respect to the Qualified Businesses in which venture firms, MVF, or MSBDFA have invested designated capital, a total of 1115 Maryland jobs have been created or retained with an average wage of over \$75,000. The specific information required for this report is set forth below:

Qualified Business	Industry Sector	Size of Business	MD Jobs Created	Average Wage	MD Jobs Retained	Average Wage
20/20 Gene Systems, Inc.	Life Sciences	Small	14	\$60,000	27	\$67,812
3CLogic, Inc.	Information Technology	Small	49	\$62,500	53	\$57,391
6th Street, Inc., dba SalesWarp	Ecommerce	Small	40	\$110,000	9	\$85,000
Bambeco, LLC	Ecommerce	Small	30	\$71,220	22	\$97,535
BrainScope Company, Inc.	Medical Instruments	Small	25	\$85,000	16	\$110,000
CES Acquisition Corp.	Education Technology	Small	21	\$68,000	110	\$66,000
GrayBug, LLC	Life Sciences	Small	5	\$100,000	4	\$148,750
InstantLabs Medical Diagnostics Corp.	Life Sciences	Small	6	\$65,000	7	\$70,000
Luminal, Inc.	Cyber Security	Small	35	\$100,000	0	\$90,000
Maxtena, Inc.	Telecommunications	Small	18	\$100,000	12	\$110,000
Optoro, Inc.	Information Technology	small	35	\$50,000	70	\$49,900
Pathsensors, Inc.	Life Sciences	Small	15	\$65,000	8	\$72,750
Plasmonix, Inc.	Life Sciences	Small	10	\$45,000	4	\$115,250
Pulse 8, LLC	Software	Small	19	\$91,000	3	\$133,000
ReelGenie, LLC	Information Technology	Small	17	\$75,000	11	\$60,500
Social Toaster, Inc.	Information Technology	Small	5	\$78,000	14	\$58,450
Theranostics Health, Inc.	Life Sciences	Small	25	\$85,000	9	\$116,000
Weather Analytics, LLC	Weather Technology	Small	52	\$55,000	0	\$88,250
Zenoss, Inc.	Information Technology	Small	195	NA	110	NA
Zeuss, Inc.	Information Technology	Small	5	\$63,000	5	\$63,200
			621	\$75,196	494	\$87,357

*All reported figures for FY 2013 are for the time period up to and including 12/31/2013

*Information regarding MSBDFA investments as of 12/31/2013 is unavailable at this time