

**OFFICE OF FINANCE PROGRAMS**  
**CYBERSECURITY INVESTMENT INCENTIVE**  
**TAX CREDIT PROGRAM**

**ANNUAL STATUS REPORT**  
**TAX YEAR 2015**  
**TAX-GENERAL ARTICLE**

**SECTION 10-733**

**Submitted by:**

**Maryland Department of Commerce**

**January 2016**

# STATUS REPORT

## CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT CALENDAR YEAR 2015

### PROGRAM OVERVIEW

Maryland's Cybersecurity Investment Incentive Tax Credit program provides income tax credits for Qualified Maryland Cybersecurity Companies (QMCCs). The program was enacted during the 2013 legislative session of the Maryland General Assembly (HB803) to offer incentives for investment in early stage privately-held cybersecurity companies. The program will be funded as of January 1, 2014 and each subsequent fiscal year through December 31, 2018 in the amount of at least \$2,000,000. The Maryland Cybersecurity Investment Incentive Tax Credit program sunsets on June 30, 2019, unless further action is taken by the General Assembly. The program's Fiscal Year 2014 appropriation was \$3,000,000. In Fiscal Year 2015, the program received an appropriation of \$4,000,000. The Fiscal Year 2016 appropriation approved by the General Assembly was decreased to \$1,500,000.

The value of the credit is equal to 33% of an eligible investment made in a QMCC during the fiscal year. The maximum amount of the credit cannot exceed \$250,000 from each qualified investor. However, the tax credits for investments in a single qualified QMCC cannot exceed 15% of the program's fiscal year funding.

The total amount of Final Tax Credit Certificates issued in each fiscal year cannot exceed the amount appropriated to the reserve fund in the State budget. All applications are reviewed and approved by the Maryland Department of Commerce (COMMERCE) on a first come, first-serve basis.

### Qualifications

**A Qualified Maryland Cybersecurity Company** is a cybersecurity company subject to certification by COMMERCE and (1) has its headquarters and base of operations in the State of Maryland; (2) has not participated in the tax credit program under this section for more than 1 prior fiscal year; (3) has been in active business no longer than 5 years; (4) has an aggregate capitalization of at least \$100,000; (5) owns or has properly licensed any proprietary cybersecurity technology; (6) has fewer than 50 full-time employees; (7) does not have its securities publicly traded on any exchange; (8) is organized for profit and in good standing; (9) is current in the payment of all tax obligations to the State or any unit or subdivision of the State; and (10) is not in default under the terms of any contract with, indebtedness to, or grant from the State or any unit or subdivision of the State.

**A Qualified Investor** is an individual or entity who invests at least \$25,000 in a QMCC and that is required to file an income tax return in any jurisdiction.

## **Applying for the Credit**

At least 30 calendar days but no more than 60 calendar days prior to making a qualifying investment, a qualified investor must complete and mail the Maryland Cybersecurity Investment Incentive Application Forms to COMMERCE. A complete application includes both investor forms (Form A1, A2, or A3) and the Maryland Cybersecurity Company Form (Form B). Only mailed applications are accepted. Electronic or faxed applications cannot be accepted. Complete forms must include all information described in the instructions of each form. Incomplete applications are rejected.

For Fiscal Year 2016, the Maryland Cybersecurity Investment Incentive Tax Credit program began accepting applications on June 1, 2015. Completed applications with all attachments were accepted at the COMMERCE (ATTN: Tax Incentives) offices located at World Trade Center, 401 East Pratt Street, 17th Floor, Baltimore, MD 21202. A User Name and Reference Number was issued within 48 hours, except applications received after June 26, 2015 had a User Name and Reference Number issued after July 1, 2015.

The second step of the application process - the electronic filing process - started at 9:00 am EDT on July 1, 2015, through the [cybertaxcredit.choosemaryland.org](http://cybertaxcredit.choosemaryland.org) website. Submission order of the applications is determined by "first-come, first-serve" based ONLY on the electronic submission of the User Name and Reference Number. No physical application is filed for purposes of the ordering of first-come, first-serve. Multiple submissions by an applicant using the same user name and reference number is considered filed at the date and time of the LAST submission (This rule is to maintain that the application procedure is as fair and equitable as possible.). Any decision made by COMMERCE during the application process is considered final.

## **Certification Process**

Applications are reviewed and approved based on the first-come, first-serve order. Applications and proof of investment forms are reviewed by a reviewer who is a member of the Cybersecurity Investment Incentive Tax Credit Committee. The application and proof of investment forms are then presented to the Committee for action during meetings held periodically. The Committee is comprised of a panel composed of experts in the area of cybersecurity technology and COMMERCE professional employees with expertise in cybersecurity technology, venture capital funding, business law and taxation.

Upon approval of an application, COMMERCE will issue an initial tax credit certificate certifying the amount of any approved tax credits to a QMCC or offer rejection. A qualified investor has 30 days after the date COMMERCE issues the initial tax credit to make an investment in the QMCC. Within 10 days of making the investment, the QMCC shall provide written notice with supporting documentation to COMMERCE. If the QMCC fails to provide notice of investment to COMMERCE within 40 days after the issuance of the initial tax credit certificate COMMERCE shall rescind the certificate. Based on the actual amount of an investment made by the investor, COMMERCE issues a Final Tax Credit Certificate to the QMCC.

Initial Tax Credits can be rescinded due to the fact that the prospective Investor decides to invest less than the amount originally applied for or decides not to invest at all. Unused Tax Credits revert back to the program's reserve fund for the next investor in line.

Applicants are made aware that all information submitted in or accompanying an application may be subject to the provisions of the Maryland Public Information Act (Md. Code, State Government Article, Title 10, Subtitle 6, Part III) and to the provisions of Md. Code, Tax General Article, §10733.

### **CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT PROGRAM ACTIVITY FOR CALENDAR YEAR 2015**

Since HB803 passed in 2013, COMMERCE began implementing the program by creating a website to provide program information including application forms and instructions, frequently asked questions, and access to the statute. COMMERCE also created an online registration website to establish the application submission order to ensure a "first come, first serve" basis for potential investors. In addition, COMMERCE is developing regulations as well as marketing the program.

Beginning January 1, 2015, COMMERCE received a total of 26 applications for the Cybersecurity Investment Incentive Tax Credit. Of the 26 applications received in 2015, 24 resulted in the issuance of Initial Tax Credit Certificates. Two applications issued an Initial Tax Credit Certificate were rescinded. Two applications were rejected for various reasons, including letter of withdrawal. Seventeen applications issued an Initial Tax Credit Certificate are pending final approval for Tax Credits. Five applications received a Final Tax Credit Certificate during 2015.

This Cybersecurity program is gaining momentum amongst investors and attracted \$7,132,499 in total capital investment into QMCCs. For calendar year 2015, a total of \$1,422,900 in Initial Tax Credit Certificates were awarded. This amount must then be reduced by \$316,800 to account for rescissions of Initial Tax Credit Certificates and further reduced by \$23,100 to account for differences in amounts actually invested by Investors in QMCCs. In addition, \$258,000 in Initial Tax Credits issued during the fourth quarter 2015 are pending review for Final Tax Credit Certificates. Therefore, the amount of Final Tax Credit Certificates awarded as of December 31, 2015 is \$825,000.

Of the three CIITCs to receive investments through the program during calendar year 2015, two are located in Baltimore City and one in Montgomery County.

**DEPARTMENT OF COMMERCE  
MARYLAND CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT PROGRAM**

**CALENDAR YEAR 2015 REPORT - INITIAL TAX CREDIT CERTIFICATES**

ID #	INVESTOR	APPROVED ALLOWABLE INITIAL TAX CREDIT (\$)	MARYLAND CYBERSECURITY COMPANY	COMPANY ADDRESS	COMPANY LOCATION (MD CITY)	COMPANY ZIP CODE	COMPANY LOCATION (MD COUNTY)	RECEIPT OF APPLICATION (DATE)	DEPARTMENT APPROVAL OF INITIAL CERTIFICATE (DATE)
24	Propel Baltimore Fund, LLC	151,800	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	10/29/2014	1/30/2015
26	Blackstone Innovations L.L.C.	165,000	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	3/17/2015	3/18/2015
27	Adam James	66,000	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	6/20/2015	6/23/2015
29	Blackstone Innovations L.L.C.	250,000	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	6/17/2015	6/18/2015
30	The Marc R. Benioff Revocable Trust U/A/D 12/3/2004	250,000	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	6/17/2015	6/18/2015
31	BHV Entrepreneurship Fund II LP	\$57,100	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	6/22/2015	6/23/2015
32	Allegis Capital VI, L.P., An Allegis Cyber Innovation Fund	\$34,000	RedOwl Analytics, Inc.	1111 Light Street - Suite 250	Baltimore	21230	Baltimore City	7/8/2015	7/13/2015
33	William Buchanan	57,750	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	8/30/2015	12/15/2015
34	Kathryn Riepe	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	8/27/2015	12/15/2015
35	Michael Scott	33,000	Cryptonite, LLC	15400 Calhoun Drive, Suite 190	Rockville	20855	Montgomery	11/24/2015	12/15/2015
39	William	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/8/2015	12/15/2015
40	Laura Anne	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/16/2015	12/21/2015
41	Laurette Chambers	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/15/2015
42	H. Benjamin	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/8/2015	12/15/2015

\* Adjustments  
GREY SHADING = Rescission of Initial Tax Certificate

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43	Dennis	2,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/17/2015	12/21/2015
44	Nicholas Andrew	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/15/2015
45	Greg	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/15/2015
46	George	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/15/2015
47	Allen Edward	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/8/2015	12/15/2015
48	Daniel Verbic and Kristin	16,500	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/8/2015	12/15/2015
49	Jonathan	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/12/2015	12/21/2015
50	Jeffrey Parker Cummings and Michele Parr	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/21/2015
51	Hardesty Capital Management, LLC	8,250	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/15/2015
52	Claiborne Partners LLC	49,500	Strajillion, Inc	855 North Wolfe St., Ground Floor Suite B	Baltimore	21205	Baltimore City	12/9/2015	12/15/2015
CALENDAR YEAR - TOTAL INITIAL TAX CREDIT CERTIFICATES AWARDED (\$)		1,422,900							
LESS: TOTAL RESCISSIONS, INITIAL TAX CREDIT CERTIFICATES AWARDED (\$)		\$1,422,900							
LESS: * ADJUSTMENT, LOWER/HIGHER ACTUAL INVESTMENTS (\$)		316,800							
LESS: Pending Final Tax Credit Certificates		23,100							
FINAL TAX CREDIT CERTIFICATES AWARDED (\$) - CALENDAR YEAR		258,000							
* Adjustments		\$825,000							

\* Adjustments  
GREY SHADING = Rescission of Initial Tax Certificate