



September 16, 2014

Mr. Daniel Timberlake
Director
Department of Planning and Budget
1111 East Broad Street, Room 5040
Richmond, Virginia 23219-3418

Dear Mr. Timberlake:

Enclosed please find the FY2014 Report on Broadband, the Growth Acceleration Program (GAP) and the Cyber Security Accelerator (MACH37tm) for the Innovation and Entrepreneurship Investment Authority and the Center for Innovative Technology. The attached report fulfills the requirements of the Appropriations Act, Item 419 N.

Please feel free to call me at 703-689-3000 if you have any questions.

Sincerely

Peter Jobse
President & CEO
The Center for Innovative Technology

cc: Ms. Karen Lux, Senior Budget Analyst, Department of Planning and Budget
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
Mr. Robert P. Vaughn, Staff Director, House Appropriations Committee
The Honorable Walter A. Stosch, Co-Chairman, Senate Finance Committee
The Honorable Charles J. Colgan, Co-Chairman, Senate Finance Committee
Ms. Betsey Daley, Staff Director, Senate Finance Committee

Enclosure

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Ms. Karen Lux
Senior Budget Analyst
Department of Planning and Budget
1111 East Broad Street, Room 5040
Richmond, Virginia 23219-3418

Dear Ms. Lux:

Enclosed please find the FY2014 Report on Broadband, the Growth Acceleration Program (GAP) and the Cyber Security Accelerator (MACH37[™]) for the Innovation and Entrepreneurship Investment Authority and the Center for Innovative Technology. The attached report fulfills the requirements of the Appropriations Act, Item 419 N.

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The Honorable S. Chris Jones
Chairman, House Appropriations Committee
General Assembly Building
P.O. Box 406
Richmond, Virginia 23218

Dear Chairman Jones:

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Staff Director, House Appropriations Committee
General Assembly Building
P.O. Box 406
Richmond, Virginia 23218

Dear Mr. Vaughn:

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The Honorable Walter A. Stosch
Co-Chairman, Senate Finance Committee
Senate of Virginia
P.O. Box 396
Richmond, Virginia 23218

Dear Chairman Stosch:

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Senate of Virginia
P.O. Box 396
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Staff Director, Senate Finance Committee
Senate of Virginia
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In accordance with Item 419.N of the 2014 Appropriations Act, the Center for Innovative Technology is pleased to submit the following report on behalf of Innovation and Entrepreneurship Investment Authority (IEIA). This item requires that information be reported annually on three of CIT's programs designed to grow the innovation and entrepreneurship sectors of Virginia's economy.

1. Activities associated with providing localities with broadband assistance
2. Activities associated with the Growth Accelerator Program (GAP)
3. Activities associated with the cyber security accelerator

1. Broadband

During FY14 CIT's Broadband program was entirely funded through a US Department of Commerce's National Telecommunications and Information Administration (NTIA) grant designed to expand access to broadband services in the United States. 2014 is the final year of NTIA funding but the Commonwealth's new biennial budget includes \$500,000 in each year to fund CIT's program. The state funded program is designed to accelerate the socio-economic growth of Virginia's rural and underserved areas through the application and use of broadband telecommunications.

CIT's Broadband program is responsible for developing a statewide broadband strategy and working with communities and local government to develop access and adoption plans. CIT coordinates with other state entities including; DHCD, VRA, VITA, Virginia Tech, VGIN and others to further assist localities find support for planning and infrastructure projects. Additionally, CIT works with service providers in the Commonwealth to analyze and map assets and coverage data. This information is critical in developing public policy and strategic plans that facilitate broadband deployments that adequately support economic development, education, healthcare, public safety and overall quality of life.

The FY14 activity summarized below in response to Section 419.N.1 of the Appropriation Act was funded through the NTIA grant. In future reports, this section will represent state funded activity for each subsequent fiscal year.

- (i) The number of localities assisted by broadband funding:
 - (i) **CIT assisted 35 localities in strategic planning and conducted 7 regional broadband workshops for broadband expansion options in underserved areas of the Commonwealth**
 - (ii) **CIT Developed the Commonwealth's broadband map to identify and assist localities in underserved areas based on data collected from 69 broadband providers**
 - (iii) **CIT developed resources and tools used by localities in planning broadband deployments, assessing needs and raising awareness to increase adoption and utilization**
- (ii) The estimated number of localities with populations lacking wired broadband access:
 - (i) **Based on April 2014 data Virginia has 52 localities with a significant percentage of households that have no wireline broadband access (please see the Attachment 1 for a map of those localities reporting 20% or more households with no wired coverage)**

2. The Growth Accelerator Program (GAP)

The GAP Fund was established to meet the early stage capital demands challenging the Commonwealth's most promising science and technology-based start-ups whose funding requirements could not be met by traditional financing means. GAP Fund investments are governed by the goal of developing the next generation of Virginia's science and technology economy and the entrepreneurial ecosystem required to support that economy. To this end, the GAP Fund places equity and convertible debt investments in tech, clean-tech and life science companies at the earliest stages of company formation, in a manner conducive to stimulating significant private investment or "leverage cash" as a result of CIT's deployment of public dollars.

Fundamental to CIT's ability to successfully deliver private capital is that, unlike grant programs, CIT holds an ownership position in the investee company and maintains that ownership for a multi-year holding period of indeterminate length while the company grows in scope of operations and value. CIT recovers GAP Program investments only upon a liquidity event such as a public offering or change of control for the company.

Underwritten in part by an annual appropriation from the Virginia General Assembly, the GAP Fund Program functions as a double-bottom-line investment fund focused on creating significant economic outcomes for the Commonwealth, entrepreneurs and co-investors, with the goal of recovering investment capital for redeployment. Since inception, the GAP Fund Program has considered investing in over 3,000 companies and has invested \$14.4M in 114 seed and early stage technology, life science, and energy companies across the Commonwealth of Virginia.

Over the 10-year life of the program, CIT has found that the following metrics most closely align with program objectives:

- *Venture and Angel Capital Attracted* – Venture and angel capital dollars invested in the GAP Fund Program's portfolio companies as a result of CIT investing dollars appropriated to IEIA and obtained from federal and private sources. CIT calculates its annual leverage factor by dividing the total of venture and angel capital by all GAP Fund Program portfolio companies in a given year by the dollars deployed in new investments in that year.
- *GAP Fund Program Return* – The ratio of capital returned and anticipated to return to CIT, as a result of portfolio companies being acquired, divided by total GAP Fund Program dollars deployed.

Venture and Angel Capital Attracted. For the period FY12-FY14, the GAP Fund Program achieved the following annual leverage cash totals:

- FY12 – In FY12, the GAP Funds Program invested \$2.1M. In FY12, CIT attracted \$24.6M

in angel and venture dollars – from both FY12 and pre-existing investments, for an annual leverage factor of 11.7.

- FY13 - In FY13, the GAP Funds Program invested \$2.1M. In FY13, CIT attracted \$37.5M in angel and venture dollars – from both FY13 and pre-existing investments, for an annual leverage factor of 17.9.
- FY14 - In FY14, CIT GAP Funds invested \$3.6M. In FY14, CIT had attracted \$102.8M in angel and venture dollars – from both FY14 and pre-existing investments, for an annual leverage factor of 28.5.

Important to note in these ratios is the impact of economic conditions with respect to the ability of GAP portfolio companies to attract leverage capital. Poor economic conditions may result in a lower capital attraction ratio due to investor withdraw from the early stage asset class which is not a direct reflection of changes or performance in the GAP program structure and operations.

GAP Fund Program Return. By the end of FY14, CIT had secured and invested a total of \$14,378,710.25, program inception-to-date and had a projected capital return of \$18,436,026.97 on invested funds, resulting in a capital return factor of 1.3. This number indicates that CIT is managing Virginia’s GAP Funds Program appropriation consistent with its goal to return funds to preserve the base of funds for future investment in Virginia’s early stage companies.

The FY2014 activity below is provided in response to Section 419.N.2 of the Appropriation Act. Since GAP investments are, by design, seed stage and intended to leverage private investment and stimulate the next generation of new technology companies, job creation and tax revenue impact are longer term objectives, that data is not available for FY14.

- (i) The number of investments from the GAP fund in FY14: **57**
 - a) First time investments closed – GAP: 24
 - b) First time investments closed – MACH37: 10
 - c) Second round investments closed – GAP: 15
 - d) Second round investments closed – MACH37: 8
- (ii) The average state funding per investment: **\$64.4K**
- (iii) The impact on job creation: **Not available**
- (iv) Estimated tax revenue generated: **Not available**
- (v) The number of companies who have received investments from the GAP fund still operating in Virginia: **56 of those companies remain in Virginia, one company was acquired.**

3. Cyber Security Accelerator (MACH37)

MACH37 is the premier accelerator for cybersecurity entrepreneurs and startups nationally. This unique program goes beyond the traditional model of typical business accelerators by providing innovators with focused mentoring and support from an extensive network of visionaries, practitioners, and successful entrepreneurs in cybersecurity. The Spring and Fall sessions of MACH37’s 90- day program are designed

to propel graduating companies into the marketplace with validated cyber security concepts and pipelines for accelerated growth.

The program emphasizes the validation of cohort company product concepts and the development of relationships to attract an initial customer base and investment capital. MACH37 employs a tailored approach to address the priority needs of each company, based on their individual strengths and weaknesses.

MACH37 was championed by the Commonwealth's technology community and launched on September 12, 2013 and started its first cohort that same month. Companies selected for the program typically constitute a team of 2 to 4 entrepreneurs and a technical co-founder working to build alpha or prototype cyber security solutions that address the drivers of a demand for innovations in cybersecurity, including:

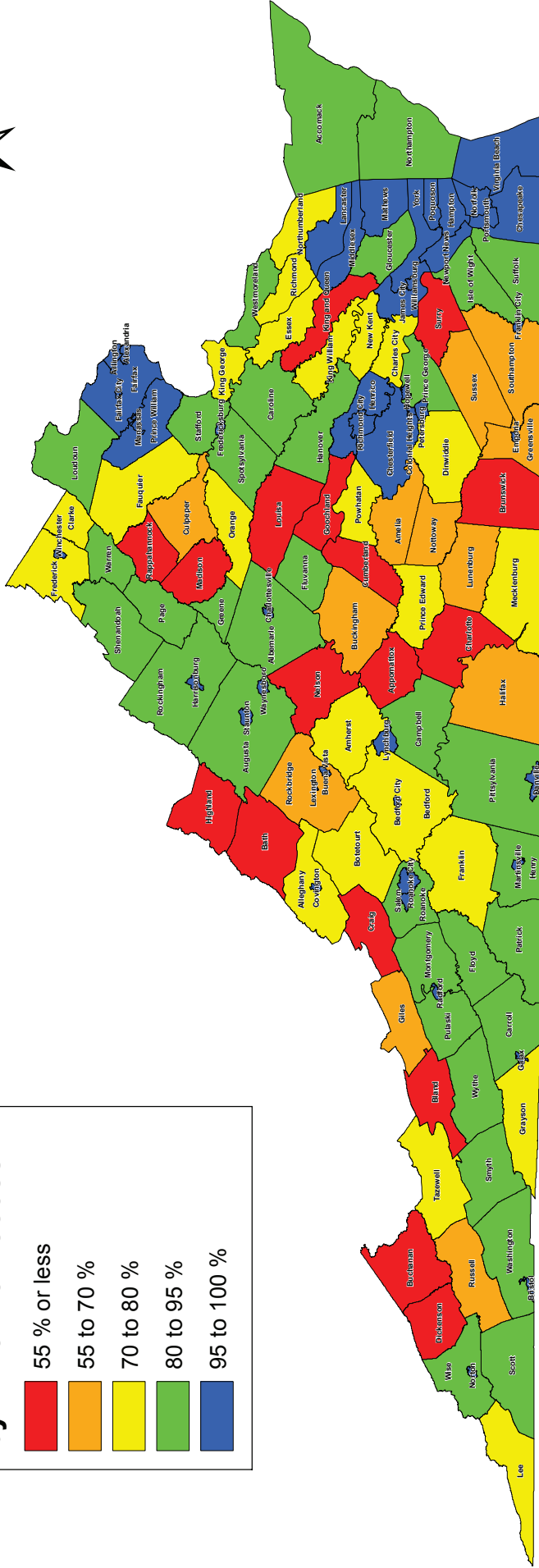
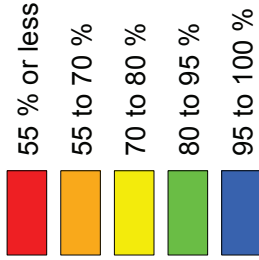
- New mainstream demand for advanced capabilities;
- Porous network perimeters that are making traditional solutions less relevant;
- Opportunities created from software defined networking; and
- Challenges of a hyper-connected world with an Internet-of-everything.

At the close of the fall 2014 cohort class, the list of successful graduates will include 17 new cyber companies that have been attracted from around the country to grow these critical businesses in Virginia.

The FY2014 activity below is provided in response to Section 419.N.3 of the Appropriation Act. As in the case of the GAP Fund, MACH37 companies are very early stage and the program is designed to leverage private investment and stimulate the growth of the cyber industry in Virginia. Therefore, the preceding 12 months is not sufficient to develop meaningful job creation data or to anticipate equity returns.

- (i) The number of companies assisted with the cyber accelerator program in FY14: **10**
- (ii) The number of companies operating in Virginia as a result of the program: **10**
- (iii) Impact on job creation: **Not Available**
- (iv) The value of proceeds from the sale of equity in companies that received capital support from the program in FY14: **No MACH37 graduate company has been acquired or become publicly traded in the first twelve months of this program.**

Households Covered by Wireline Access



Percentage of Covered Households in Virginia by County

Mapping and Spatial Alteration provided by:



Map Created April 2nd, 2014

The representations contained herein are for informational purposes only. Best efforts are undertaken to ensure the correctness of this information, however, all warranties regarding the accuracy of the map and any representations or inferences derived there from are hereby expressly disclaimed.

The Virginia Center for Innovative Technology (CIT) and its partners neither assure nor accept any liability for the accuracy of the data. Those relying upon this information assume the risk of loss exclusively for any inaccuracy. All errors and omissions brought to the attention of the CIT will be promptly corrected.

FY14 GAP DEALS CLOSED



Reston



Fairfax



DivvyCloud
More Time Developing • Less Time Managing

EVS Glaucoma
Therapeutics

Herndon



Blacksburg

ENCOREALERT

Arlington



Dumfries



LiveSafe

Stay connected. Be empowered.
Make a difference.
Arlington

McLean

Maternity
Neighborhood



Charlottesville

Neoantigenics

targeted cancer theranostics

Charlottesville

PerformYard

Arlington



Fresh Meals Marketplace

Arlington



PierceGTI

Dunn Loring



Arlington



Power Fingerprinting, Inc.

Blacksburg

RioGin

Charlottesville

SL8Z
CROWDSOURCED RECRUITING

Arlington



sphynkx
THERAPEUTICS

Charlottesville

triblio

Herndon



Dulles

WealthForge
DREAM, CONNECT, SUCCEED

Richmond



Arlington

FY14 Mach37 DEALS CLOSED



AXON *Ghost Sentinel*

Harrisonburg

CardK..llTM

Largo, FL

CONATIX *Reinventing
Business
Research*

Berlin, Germany

DISRUPT 6

Leesburg

fast **ORIENTATION**

Menlo Park, CA

 **IDentia**TM

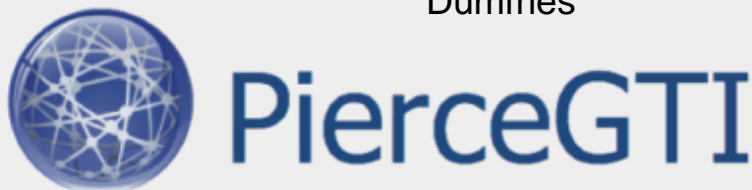
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Alexandria



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