



September 1, 2015

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 FY2015 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.1-4.

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

Respectfully,

Linda E. Gentry
Chief Financial Officer
The Center for Innovative Technology

cc: Mr. John G. Crooks, CIT's 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
Mr. David Lucien, CIT Chairman of the Board
Mr. Hooks Johnston, CIT Vice Chairman of the Board
Ms. Karen Jackson, Secretary of Technology

Enclosure

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CIT
CENTER FOR INNOVATIVE TECHNOLOGY

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CIT's Budget Analyst
Department of Planning and Budget
1111 East Broad Street, Room 5040
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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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Mr. Robert P. Vaughn
Staff Director, House Appropriations Committee
General Assembly Building
P.O. Box 406
Richmond, Virginia 23218

Dear Mr. Vaughn:

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September 1, 2015

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

Dear Chairman Stosch:

Enclosed please find the FY2015 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.1-4.

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September 1, 2015

The Honorable Charles J. Colgan
Co-Chairman, Senate Finance Committee
Senate of Virginia
P.O. Box 396
Richmond, Virginia 23218

Dear Chairman Colgan:

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September 1, 2015

Ms. Betsey Daley
Staff Director, Senate Finance Committee
Senate of Virginia
P.O. Box 396
Richmond, Virginia 23218

Dear Ms. Daley:

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September 1, 2015

Mr. David Lucien
CIT Chairman of the Board
DCL Associates
18261 Mullfield Village Terrace
Leesburg, Virginia 20176

Dear Mr. Lucien:

Enclosed please find the FY2015 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.1-4.

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September 1, 2015

Mr. Hooks Johnston
CIT Vice Chairman of the Board
Valhalla Partners
8000 Towers Crescent Drive, Suite 1050
Vienna, Virginia 22182

Enclosed please find the FY2015 Report on Broadband, the Growth Acceleration Program (GAP) and the Cyber Security Accelerator (MACH37th) 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.1-4.

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September 1, 2015

Ms. Karen R. Jackson
Secretary of Technology
Patrick Henry Building
1111 East Broad Street, 4th Floor
Richmond, Virginia 23219

Dear Secretary Jackson:

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In accordance with Item 419N.1-4 of the 2015 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
4. Reports should include the prior fiscal year outcomes, outcomes of each program since inception, and changes anticipated in subsequent fiscal year

419 N.1 Broadband

During FY2015, CIT's Broadband program was funded through a US Department of Commerce National Telecommunications and Information Administration (NTIA) grant designed to expand access to broadband services in the United States. Funding through the NTIA grant ended in February 2015, and CIT received its first Commonwealth's appropriation of \$500,000 for FY2015. 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 governments to expand access and improve adoption and utilization. CIT coordinates with other state entities including; Department of Housing and Community Development (DHCD), Virginia Resources Authority (VRA), Virginia Information Technologies Agency (VITA), Virginia Tech, Virginia Geographic Information Network (VGIN), Virginia Planning District Commissions and others to further assist localities to identify support for broadband planning and infrastructure projects. Additionally, CIT works with service providers in the Commonwealth to collect data and map assets and coverage. This information is critical in developing public policy and strategic plans that facilitate broadband deployments to adequately support economic development, education, healthcare, public safety and overall quality of life. CIT is very focused in their work with the Broadband Advisory Council to identify and prepare the council to introduce legislation that will expedite broadband infrastructure investments to expand service and capacity across the Commonwealth.

The FY2015 activity summarized below in response to Section 419.N.1 of the Appropriation Act was funded partly through the NTIA grant, and state funded activity.

I. The number of localities assisted by the state and other broadband funding sources:

- CIT assisted 61 localities and 8 Planning District Commissions (PDCs) in broadband assessment and planning in addition to fielding 40+ citizen inquiries to the Governor's

office related to broadband. Additionally CIT coordinated 3 regional Broadband Advisory Council meetings during the year and presented broadband information at 9 local, regional and state events

- CIT Developed the Commonwealth’s broadband map to identify and assist localities in underserved areas based on data collected from 40 broadband providers including one update completed after the NTIA funding ended
- CIT developed resources and tools used by localities in assessing needs, planning broadband deployments, and raising awareness to increase adoption and utilization including the development of the Strategic Broadband Roadmap infographic and associated white-paper to guide localities in assessing broadband needs and defining strategic broadband goals

II. The estimated number of households and localities with populations lacking wired broadband access:

- a) Based on April 2014 data, Virginia has 62 localities with a significant percentage of households that have no fixed broadband access (please see link [Virginia 25MBPS](#) for a map of those localities reporting 20% or more households without fixed broadband service) based on the FCC’s new definition (as of January 2015) of 25Mbps download speed and 3Mbps upload speed. Over 10% of Virginia citizens have no access to even basic (at least 3Mbps) fixed Internet service.

419 N.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 3,500 companies and has invested \$17.97M in 138ⁱ 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 Innovation and Entrepreneurship Investment Authority (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 FY15 and inception-to-date, the GAP Fund Program achieved the following leverage cash totals:

- **FY15** – During FY15, CIT GAP Funds invested \$3.6M. In FY15, CIT had attracted \$93M in angel and venture dollars - from both FY15 and pre-existing investments, for an annual leverage factor of 25.9.
- **Inception-to-Date** – Since inception, CIT GAP Funds has invested \$17.9M. CIT has attracted \$331M in angel and venture dollars, for an inception-to-date leverage factor of 18.5.

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 FY15, CIT had secured and invested a total of \$17,971,287.29, program inception-to-date and had a projected capital return of \$23,880,010.17 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 FY2015 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. Twelve of these companies were formed during FY15 to participate in MACH37 cyber security accelerator.

- I. The number of companies receiving investment from the fund:
 - a. FY15: 46 investments in 37ⁱⁱ companies
 - b. Inception-to-date: 138ⁱⁱⁱ companies

- II. The state investment and amount of privately leveraged investments per company:
 - a. FY15: CIT invested \$3.6M and leveraged \$30.3M in angel and venture dollars
 - b. Inception-to-date: CIT invested \$17.9M and leveraged \$331M in angel and venture dollars

- III. The estimated number of jobs created in Virginia:
 - a. FY15: 215 jobs in companies invested in by CIT in FY15
 - b. Inception-to-date: Not available

- IV. The estimated tax revenue generated:
 - a. FY15 investments:
 - i. Estimated corporate income tax: \$452,924.66^{iv}
 - ii. Estimated personal income tax on jobs: \$1,489,950^v
 - b. Inception-to-date: Not available

- V. The number of companies who have received investments from the GAP fund still operating in Virginia
 - a. FY15 investments: 37 out of 37
 - b. Inception-to-date: 105 out of 138 (7 have moved from the Commonwealth, 11 have failed, 15 have been acquired or paid back CIT)

- VI. Return on investment
 - a. FY15 investments: \$0
 - b. Inception-to-date: \$2,331,982.70

VII. The number of state investment that failed:

- a. FY15 investments: 0
- b. Inception-to-date: 11 failures, \$1,376,100 invested

VIII. Number of companies created or expanded and the number of patents filed:

- a. FY15:
 - i. Companies created or expanded: 37
 - ii. Number of Patents filed: 45
- b. Inception-to-date:
 - i. Companies created or expanded: 138
 - ii. Number of Patents filed: Not available

419 N.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 Spring 2015 cohort class, the list of successful graduates includes 22 new cyber companies that have been attracted from around the country to grow these critical businesses in

Virginia. Mach37 has also attracted applications from companies desiring to launch from the Herndon-based accelerator from 11 countries beyond the United States and Canada.

The FY2015 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, there is not sufficient operating history to develop meaningful job creation data or to anticipate equity returns.

- I. The number of companies assisted and the number of startups successful launched through the cyber accelerator program in:
 - a. FY15: 12
 - b. Inception-to-date: 22

- II. The number of companies operating in Virginia as a result of the program in:
 - a. FY15: 11 of the 12
 - b. Inception-to-date: 18 of the 22

- III. The estimated number of jobs created:
 - a. FY15: 25 jobs in companies invested in by MACH37 in FY15
 - b. Inception-to-date: 43

- IV. The value of proceeds from the sale of equity in companies that received capital support from the program:
 - a. No MACH37 graduate company has been acquired or become publicly traded since inception of this program.

- V. The number of state investments that failed and the state investment associated with failed investments:
 - a. No MACH37 graduate companies have failed since inception of this program

- VI. Number of new companies created or expanded and the number of patents filed:
 - a. FY15:
 - Companies created or expanded: 12
 - Number of Patents filed: 15
 - b. Inception-to-date:
 - Companies created or expanded: 22
 - Number of Patents filed by inception-to-date by FY15 portfolio: 28

¹ CIT has invested in 139 companies, two of which merged together, making the total number of companies invested in 138

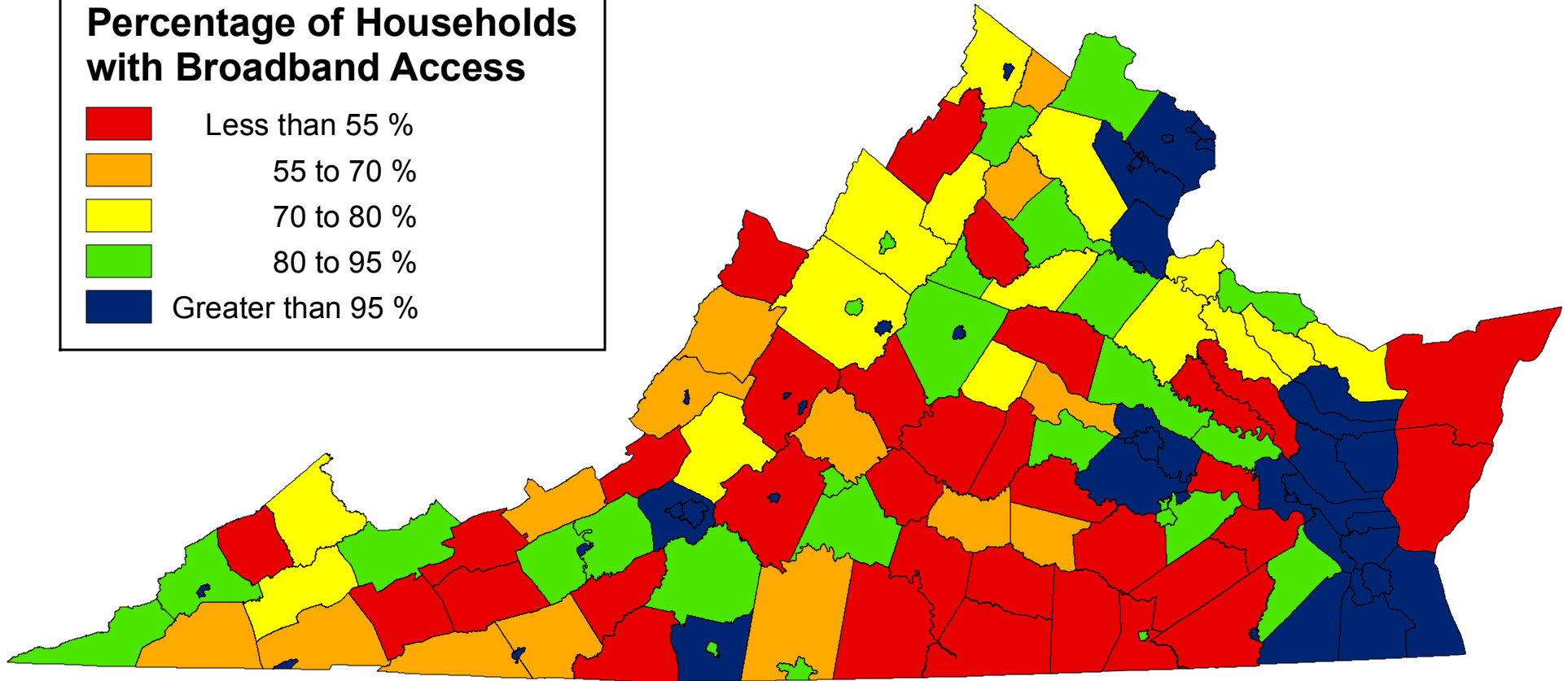
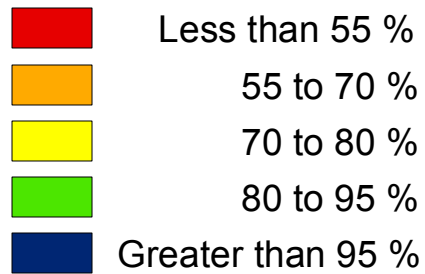
ⁱⁱ Oppleo is not considered in the company or investment count, because we consider the entire \$50K initial investment to be one transaction, which initially occurred during FY14

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^{iv} Based on company actual revenue in CY2015 Q1 and Q2 and estimated revenue in Q3 and Q4, assumes a 25% profit

^v Assumes an average salary of \$125K per Virginia employee

Percentage of Households with Broadband Access



Percentage of Households with Broadband Access

The FCC definition of broadband access is a download speed faster than 25 Megabits per second and an upload speed faster than 3 Megabits per second

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.

Mapping and Spatial Alteration provided by:



Map Created January 2015

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.