



April 30, 2018

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

Dear Mr. Timberlake:

Enclosed please find the third Quarterly Report for FY2018 for the Center for Innovative Technology. The attached report fulfills the requirements of the Code of Virginia, §2.2-2221.1.C (includes reporting requirements of Item 428.D.2 of the 2017 Appropriations Act).

Please feel free to call me at 703-689-3021 if you have any questions.

Sincerely,

Susan Aitcheson
CFO
Center for Innovative Technology

cc: The Honorable Brian Ball, Secretary of Commerce and Trade
The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
Ms. April Kees, Staff Co-Director, Senate Finance Committee
Mr. Brian Logwood, Associate Director, Department of Planning and Budget
Ms. Samantha Martin, Budget and Policy Director, Department of Planning and Budget
Mr. Bernard Mustafa, CIT BOD Finance Committee Chair
The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
Mr. Jason Powell, Staff Co-Director, Senate Finance Committee
Mr. Jason Saunders, Budget and Policy Analyst, Department of Planning and Budget
Mr. Michael Steed, CIT Chairman of the Board
Mr. Robert P. Vaughn, Staff Director, House Appropriations Committee
Ms. Toni Walker, Associate Director, Department of Planning and Budget

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Item 428.D.2.a

Fiscal Year 2018 Quarter 3
March 31, 2018

Financial Performance

Center for Innovative Technology
Fiscal Year 2018 Forecast as of February 28, 2018

	Operating Funds		Designated Funds													Total
	COV	Other	COV						Federal		Other					
	Discretionary	Grants & Contracts	BB Fund	IEMS Fund	Comm Fund	CRCF Fund	ISAO Fund	UAS and COE Fund	GAP Fund	SSBCI Fund	DMME Fund	MACH37 Operations	CIT's interest in:			
													MACH37 LLC	M37 Equity Pool	M37 Carried Interest	
(In Thousands)																
Beginning Balance at 7/1/2017	\$ (14)	\$ 64	\$ 108	\$ 27	\$ 613	\$ -	\$ -	\$ 667	\$ 4,809	\$ -	\$ 310	\$ -	\$ 255	\$ 1,616	\$ 618	\$ 9,073
REVENUE																
Appropriation	\$ 2,746		\$ 500	\$ 50	\$ 400	\$ 3,546	\$ 500	\$ 1,000	\$ 3,100							\$ 11,842
Interest, Sponsorship, Return on Investment	\$ 207							\$ 998			\$ 4	\$ 287			\$ 343	\$ 1,839
Contracts & Grants		\$ 1,493								\$ 17	\$ 89					\$ 1,599
Total Revenue and Transfers	\$ 2,953	\$ 1,493	\$ 500	\$ 50	\$ 400	\$ 3,546	\$ 500	\$ 1,000	\$ 4,098	\$ 17	\$ 93	\$ 287	\$ -	\$ -	\$ 343	\$ 15,280
EXPENSES AND TRANSFERS																
Operating Programs Net of Over-applied Indirects	\$ 811															\$ 811
Designated Programs	\$ 2,084		\$ 583	\$ 77	\$ 698	\$ 3,546	\$ 500	\$ 423	\$ 4,290			\$ 458			\$ 12,659	
Transfer of equity from M37 EP to CIT													\$ 156	\$ 1,616	\$ 1,772	
Contracts & Grants		\$ 1,326								\$ 17					\$ 1,343	
Total Expenses and Transfers	\$ 2,895	\$ 1,326	\$ 583	\$ 77	\$ 698	\$ 3,546	\$ 500	\$ 423	\$ 4,290	\$ 17	\$ -	\$ 458	\$ 156	\$ 1,616	\$ -	\$ 16,585
Net Change	\$ 58	\$ 167	\$ (83)	\$ (27)	\$ (298)	\$ -	\$ -	\$ 577	\$ (192)	\$ -	\$ 93	\$ (171)	\$ (156)	\$ (1,616)	\$ 343	\$ (1,305)
Ending Balance at 6/30/2018	\$ 44	\$ 231	\$ 25	\$ -	\$ 315	\$ -	\$ -	\$ 1,244	\$ 4,617	\$ -	\$ 403	\$ (171)	\$ 99	\$ -	\$ 961	\$ 7,768

Note - MACH37 Accelerator sponsorships did not meet renewal rate expected toward end of FY2018. Operating expenses in excess of sponsorship revenue will be covered by CIT Contracts & Grants profits (non-COV appropriated funds).

Legend:

- BB Fund = Broadband Program Fund
- IEMS Fund = Innovation and Entrepreneurship Measurement System Fund
- Comm Fund = Cyber Security Commission Fund
- CRCF = Commonwealth Research Commercialization Fund
- ISAO Fund = Information Sharing and Analysis Organization
- UAS and COE Fund = Unmanned Systems and Unmanned Center of Excellence Fund
- GAP Fund = Growth Accelerator Program Fund
- SSBCI Fund = State Small Business Credit Initiative Fund
- DMME Fund = Department of Mines Minerals & Energy Program Fund

Designated Funds are amounts which are to be spent on a specific purpose stated in the Appropriation Act, or, in the case of the DMME Fund, advances and investment return proceeds received on a federal grant.

Commonwealth Projects Funded by Appropriation & Other Revenue

(In Thousands)			(In Thousands)		
ACTUAL - July 17 - March 18			FORECASTED - Fiscal Year 2018		
Actual	Budget	Variance	Forecast	Budget	Variance
Revenue					
\$ 8,914	8,291	\$ 623	\$ 11,842	11,055	\$ 787
1,826	386	1,440	1,839	515	1,324
10,740	8,677	2,063	13,681	11,570	2,111
Program Expenses					
39	40	(1)	45	50	(5)
11	17	(6)	87	55	32
3,286	2,745	541	4,253	3,359	894
170	232	(62)	236	279	(43)
3,730	3,675	55	5,205	4,745	460
8	8	-	9	12	(3)
518	589	(71)	711	784	(73)
435	596	(161)	458	846	(388)
145	149	(4)	246	224	22
323	303	20	836	545	291
128	61	67	238	60	178
88	68	20	266	91	175
242	-	242	596	-	596
9	12	(3)	8	17	(9)
9,132	8,495	637	13,194	11,067	2,127
Other Expenses					
190	132	58	253	300	(47)
279	-	279	1,772	-	1,772
(242)	(12)	(230)	23	104	(81)
227	120	107	2,048	404	1,644
9,359	8,615	744	15,242	11,471	3,771
1,381	62	1,319	(1,561)	99	(1,660)

Strategic Initiatives Funded by Contracts & Grants

Entrepreneur					
17	-	17	17	-	17
17	-	17	17	-	17
-	-	-	-	-	-
89	-	89	89	-	89
-	-	-	-	-	-
89	-	89	89	-	89
37	28	9	37	28	9
37	28	9	37	28	9
-	-	-	-	-	-
Strategic Initiatives					
62	63	(1)	62	63	(1)
11	47	(36)	11	47	(36)
51	16	35	51	16	35
588	-	588	1,233	-	1,233
545	-	545	1,142	-	1,142
43	-	43	91	-	91
35	-	35	64	-	64
39	-	39	39	-	39
(4)	-	(4)	25	-	25
6	-	6	6	-	6
6	-	6	6	-	6
-	-	-	-	-	-
11	-	11	11	-	11
3	-	3	11	-	11
8	-	8	-	-	-
-	-	-	80	-	80
-	-	-	80	-	80
-	-	-	-	-	-
845	91	754	1,599	91	1,508
658	75	583	1,343	75	1,268
187	16	171	256	16	240

Consolidated Revenue, Expenses and Changes in Net Position

11,585	8,768	2,817	15,280	11,661	3,619
10,017	8,690	1,327	16,585	11,546	5,039
1,568	78	1,490	(1,305)	115	(1,420)
9,073	6,604	2,469	9,073	6,604	2,469
\$ 10,641	\$ 6,682	\$ 3,959	\$ 7,768	\$ 6,719	\$ 1,049

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY
BUDGET ANALYSIS FOR BUILDING OPERATIONS ONLY
For the Nine Months Ended March 31, 2018 and 2017

In thousands			In thousands						
ACTUAL - July to March 2018			BUILDING ANALYSIS			FORECASTED - Fiscal year 2018			
Actual	Budget	Variance		Forecast	Budget	Variance			
			REVENUE						
\$ 1,236	\$ 1,334	\$ (98)	Rental Income - lease revenue	\$ 1,587	\$ 1,656	\$ (69)			
(69)	(119)	50	Midrise revenue	(20)	(100)	80			
<u>1,167</u>	<u>1,215</u>	<u>(48)</u>		Total Revenue	<u>1,567</u>	<u>1,556</u>	<u>11</u>		
			BUILDING EXPENSES						
208	208	-	Payroll	282	285	(3)			
296	337	(41)	Utilities	403	408	(5)			
105	107	(2)	Administrative	142	145	(3)			
62	106	(44)	Operating & Maintenance	127	138	(11)			
298	309	(11)	Contracts	416	420	(4)			
75	75	-	Insurance	100	100	-			
44	32	12	Food Service Subsidy	52	42	10			
34	14	20	Leasing Commission and Miscellaneous	43	18	25			
<u>1,122</u>	<u>1,188</u>	<u>(66)</u>		Total Expenses	<u>1,565</u>	<u>1,556</u>	<u>9</u>		
<u>\$ 45</u>	<u>\$ 27</u>	<u>\$ 18</u>		Net Income	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 2</u>		

Item 428.D.2.b

Fiscal Year 2018 Quarter 3
March 31, 2018

Investments & Grants

Center for Innovative Technology
Investments Made and Return on Prior Investments
For the nine months ended March 31, 2018

Investments made:

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Advanced Aircraft Company, LLC	\$ 50,000.00		
Farmraiser, LLC	100,000.00		
MarginEdge Co.	100,000.00		
UpsideDoor, Inc.	100,000.00		
ChurnZero, Inc.	99,999.93		
LOCI, Inc.	15,000.34		
Pype, Inc.	100,000.00		
EdConnective, Inc.	50,000.00		
Tearsolutions, LLC	55,604.00		
Hideez Group, Inc.	25,000.00		
Status Identity, Inc.	25,000.00		
Cynjatech, LLC	25,000.00		
Network Security, Inc.	25,000.00		
Runsafe Security, Inc.	50,000.00		
Runsafe Security, Inc. - In-kind	25,000.00		
ThreatLocker, Inc.	25,000.00		
Hideez Group, Inc.	25,000.00		
Status Identity, Inc.	25,000.00		
Cynjatech, LLC	25,000.00		
Network Security, Inc.	25,000.00		
ThreatLocker, Inc.	25,000.00		
Ubiquitilink, Inc.	50,000.00		
Aquanta, Inc.	100,000.00		
Tearsolutions, LLC	168,352.00		
Runsafe Security, Inc.	100,000.00		
Hungry Marketplace, Inc.	100,000.00		
Hashlit, Inc.	50,000.00		
Deepsig, Inc.	100,000.00		
UpsideDoor, Inc.	100,000.00		
	<u>\$ 1,763,956.27</u>	<u>\$ 1,820,000.00</u>	<u>\$ (56,043.73)</u>

Return on Prior Investments:

Invincea/Sophos - equity proceeds	\$ 14,891.22
Lewis & Clark - note repayment	50,000.00
DivvyCloud - interest reinvested	28,602.74
DivvyCloud - SSBCI - interest reinvested	16,789.00
ChurnZero - interest reinvested	4,953.42
Ringobon - note repayment	50,000.00
Invincea/Sophos - equity proceeds	8,438.00
ADI - DMME proceeds	88,529.00
ClearEdge Solutions - equity proceeds	524,509.00
Triblio, Inc. - equity proceeds	275,501.00
Ringobon - note repayment	10,000.00
Phthisis Diagnostics - equity proceeds	10,818.00
Invincea/Sophos - equity proceeds	5,212.00
UpsideDoor - interest reinvested	1,438.00
RunSafe Security - interest reinvested	1,323.00
Invincea/Sophos - equity proceeds	43,118.94
	<u>\$ 1,134,123.32</u>

Other Gains (Losses):

Loss on transfer of equity from M37 Equity Pool, LLC to CIT M37 EP, a subsidiary of CIT, holds the MACH37 Cyber Accelerator portfolio company equity for cohorts through June 30, 2016	\$ (184,895.00)
Realized loss on investment in M37 Equity Pool, LLC	(64.44)
Realized loss on investment in M37 Equity Pool, LLC- Pierce Global	(94,030.63)
Realized gain on investment in M37 Equity Pool, LLC - proceeds from CyberAlgorithms, Inc.	1,072.45
Unrealized gain on investment in M37 Carried Interest, LLC M37 CI, a subsidiary of CIT, holds the MACH37 Cyber Accelerator portfolio company equity for cohorts from July 1, 2016 through June 30, 2017	392,040.30
Realized loss on investment in M37 Carried Interest, LLC - AutomatedDL	(49,000.00)
	<u>\$ 65,122.68</u>

CRCF Grants Awarded

N/A

Item 428.D.2.c

Fiscal Year 2018 Quarter 3
March 31, 2018

Financial & Programmatic

MACH37 LLC;
M37 Equity Pool, LLC; and
M37 Carried Interest, LLC

MACH37 LLC

Financial Report

Unaudited

As of and for the nine months ended March 31, 2018

MACH37 LLC

STATEMENT OF NET POSITION

As of March 31, 2018 and 2017

	Unaudited 3/31/2018	Unaudited 3/31/2017	Change
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 153,005	\$ 1,013,578	\$ (860,573)
Due from M37 Equity Pool, LLC	514	-	514
Total current assets	<u>153,519</u>	<u>1,013,578</u>	<u>(860,059)</u>
Capital assets:			
Furniture, fixtures, equipment, and trademark	83,704	83,704	-
Less accumulated depreciation and amortization	<u>(45,704)</u>	<u>(27,500)</u>	<u>(18,204)</u>
	38,000	56,204	(18,204)
Other assets:			
Interest in M37 Equity Pool, LLC	95,833	131,771	(35,938)
Trademark	<u>15,000</u>	<u>15,000</u>	<u>-</u>
Total other assets	110,833	146,771	(35,938)
Total assets	<u><u>\$ 302,352</u></u>	<u><u>\$ 1,216,553</u></u>	<u><u>\$ (914,201)</u></u>
LIABILITIES			
Current liabilities:			
Unearned revenue	\$ 25,000	\$ 879,322	\$ (854,322)
Due to CIT	<u>96,230</u>	<u>231,277</u>	<u>(135,047)</u>
Total current liabilities	121,230	1,110,599	(989,369)
Total liabilities	<u><u>\$ 121,230</u></u>	<u><u>\$ 1,110,599</u></u>	<u><u>\$ (989,369)</u></u>
NET POSITION			
Unrestricted	\$ 181,122	\$ 105,954	\$ 75,168
Total net position	<u><u>\$ 181,122</u></u>	<u><u>\$ 105,954</u></u>	<u><u>\$ 75,168</u></u>

MACH37 LLC

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the nine months ended March 31, 2018 and 2017

	Unaudited 3/31/2018	Unaudited 3/31/2017	Change
OPERATING REVENUE			
Sponsorship Revenue	\$ 240,318	\$ 524,318	\$ (284,000)
EXPENSES			
Operating expenses	240,318	849,993	(609,675)
Depreciation and amortization	13,621	13,750	(129)
Total expenses	<u>253,939</u>	<u>863,743</u>	<u>(609,804)</u>
OTHER INCOME (EXPENSE)			
Gain (loss) on investment	<u>514</u>	<u>(14,709)</u>	<u>15,223</u>
CHANGE IN NET POSITION	(13,107)	(354,134)	341,027
Net position, beginning	230,166	304,359	(74,193)
Distribution of cohort equity to CIT	(35,937)	-	(35,937)
Capital contributions	<u>-</u>	<u>155,729</u>	<u>(155,729)</u>
Net position, ending	<u>\$ 181,122</u>	<u>\$ 105,954</u>	<u>\$ 75,168</u>

M37 Equity Pool, LLC

Financial Report

Unaudited

As of and for the nine months ended March 31, 2018

M37 Equity Pool, LLC

STATEMENT OF ASSETS, LIABILITIES and MEMBERS' CAPITAL

As of March 31, 2018 and 2017

	Unaudited 3/31/2018	Unaudited 3/31/2017	Change
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,095	\$ 85	\$ 5,010
Due from CIT	-	11,547	\$ (11,547)
Investments in securities in portfolio companies	<u>1,977,443</u>	<u>2,504,583</u>	<u>(527,140)</u>
Total current assets	<u>1,982,538</u>	<u>2,516,215</u>	<u>(533,677)</u>
Total assets	<u>\$ 1,982,538</u>	<u>\$ 2,516,215</u>	<u>\$ (533,677)</u>
LIABILITIES			
Current liabilities:			
Due to CIT	\$ 4,731	\$ -	\$ 4,731
Due to MACH37 LLC	<u>514</u>	<u>-</u>	<u>514</u>
Total current liabilities	<u>5,245</u>	<u>-</u>	<u>5,245</u>
Total liabilities	5,245	-	5,245
MEMBERS' CAPITAL			
CIT and MACH37	1,468,819	1,867,449	(398,630)
Minority interest	<u>508,474</u>	<u>648,766</u>	<u>(140,292)</u>
Total members' capital	<u>1,977,293</u>	<u>2,516,215</u>	<u>(538,922)</u>
Total liabilities and members' capital	<u>\$ 1,982,538</u>	<u>\$ 2,516,215</u>	<u>\$ (533,677)</u>

M37 Equity Pool, LLC

STATEMENT OF OPERATIONS and CHANGES IN MEMBERS' CAPITAL

For the nine months ended March 31, 2018 and 2017

	Unaudited 3/31/2018	Unaudited 3/31/2017	Change
REVENUES			
Net realized investment gain (loss)	<u>\$ (124,995)</u>	<u>\$ (149,745)</u>	<u>\$ 24,750</u>
Total operating revenue	(124,995)	(149,745)	24,750
EXPENSES			
Operating expenses	<u>90</u>	<u>15</u>	<u>75</u>
Total expenses	<u>90</u>	<u>15</u>	<u>75</u>
NET LOSS	(125,085)	(149,760)	24,675
Other comprehensive income - Unrealized gain on investments	<u>-</u>	<u>617,733</u>	<u>(617,733)</u>
COMPREHENSIVE INCOME	(125,085)	467,973	(593,058)
Members' capital, beginning	2,354,523	2,086,850	267,673
Members' distributions	<u>(252,145)</u>	<u>(38,608)</u>	<u>(213,537)</u>
Members' capital, ending	<u>\$ 1,977,293</u>	<u>\$ 2,516,215</u>	<u>\$ (538,922)</u>

M37 Carried Interest, LLC

Financial Report

Unaudited

As of and for the nine months ended March 31, 2018

M37 Carried Interest, LLC

STATEMENT OF ASSETS, LIABILITIES and MEMBERS' CAPITAL

As of March 31, 2018 and 2017

	Unaudited 3/31/2018	Unaudited 3/31/2017	Change
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,000	\$ 5,000	\$ 6,000
Investments in securities in portfolio companies	<u>1,232,802</u>	<u>336,000</u>	<u>896,802</u>
Total current assets	<u>1,243,802</u>	<u>341,000</u>	<u>902,802</u>
Total assets	<u>\$ 1,243,802</u>	<u>\$ 341,000</u>	<u>\$ 902,802</u>
LIABILITIES			
Current liabilities:			
Due to CIT	<u>\$ 11,000</u>	<u>\$ 13,685</u>	<u>\$ (2,685)</u>
Total current liabilities	<u>11,000</u>	<u>13,685</u>	<u>(2,685)</u>
Total liabilities	11,000	13,685	(2,685)
MEMBERS' CAPITAL			
CIT	966,321	320,770	645,551
Minority Interest	<u>266,481</u>	<u>6,545</u>	<u>259,936</u>
Total members' capital	<u>1,232,802</u>	<u>327,315</u>	<u>905,487</u>
Total liabilities and members' capital	<u>\$ 1,243,802</u>	<u>\$ 341,000</u>	<u>\$ 902,802</u>

M37 Carried Interest, LLC

STATEMENT OF OPERATIONS and CHANGES IN MEMBERS' CAPITAL

For the nine months ended March 31, 2018 and 2017

	Unaudited 3/31/2018	Unaudited 3/31/2017	Change
REVENUES			
Investment income	<u>\$ (50,000)</u>	<u>\$ -</u>	<u>\$ (50,000)</u>
Total operating revenue	(50,000)	-	(50,000)
EXPENSES			
Operating expenses	<u>-</u>	<u>8,685</u>	<u>(8,685)</u>
Total expenses	<u>-</u>	<u>8,685</u>	<u>(8,685)</u>
NET LOSS	(50,000)	(8,685)	(41,315)
Other comprehensive income - Unrealized gain on investments	<u>646,802</u>	<u>86,000</u>	<u>560,802</u>
COMPREHENSIVE INCOME	596,802	77,315	519,487
Members' capital, beginning	631,385	-	631,385
Members' capital contribution	<u>4,615</u>	<u>250,000</u>	<u>(245,385)</u>
Members' capital, ending	<u>\$ 1,232,802</u>	<u>\$ 327,315</u>	<u>\$ 905,487</u>