



January 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 second 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.1-3 (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: Ms. April Kees, Staff Co-Director, Senate Finance Committee
The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
The Honorable S. Chris Jones, Chairman, House Appropriations Committee
The Honorable Esther Lee, Secretary of Commerce and Trade
Mr. Brian Logwood, Associate 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

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Item 428.D.2.a

Fiscal Year 2018 Quarter 2
December 31, 2017

Financial Performance

Center for Innovative Technology
Fiscal Year 2018 Forecast as of December 31, 2017

	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	MACH37 LLC	M37 Equity Pool		M37 Carried Interest
Beginning Balance at 7/1/2017	\$ (14)	\$ 64	\$ 108	\$ 27	\$ 613	\$ -	\$ -	\$ 667	\$ 4,809	\$ -	\$ 310	\$ -	\$ 255	\$ 1,616	\$ 618	\$ 9,073
REVENUE																
Appropriation	\$ 2,747		\$ 500	\$ 50	\$ 400	\$ 3,552	\$ 500	\$ 1,000	\$ 3,100							\$ 11,849
Interest, Sponsorship, Return on Investment	\$ 105								\$ 181	\$ 2	\$ 358					\$ 646
Transfer M37 Equity Pool Proceeds									\$ (29)		\$ 29					\$ -
Sale of MACH37 Portfolio Equity											\$ 2,122		\$ (1,504)	\$ (618)		\$ -
Contracts & Grants		\$ 1,302								\$ 17						\$ 1,319
Total Revenue and Transfers	\$ 2,852	\$ 1,302	\$ 500	\$ 50	\$ 400	\$ 3,552	\$ 500	\$ 1,000	\$ 3,252	\$ 17	\$ 2	\$ 2,509	\$ (1,504)	\$ (618)		\$ 13,814
EXPENSES AND TRANSFERS																
Indirect Costs and Undesignated Programs	\$ 2,913												\$ 36	\$ (36)		\$ 2,913
Designated Programs Direct Costs	\$ -		\$ 608	\$ 77	\$ 1,013	\$ 3,552	\$ 500	\$ 1,620	\$ 5,531			\$ 695				\$ 13,596
Transfer of Equity from M37 EP to CIT													\$ 148			\$ 148
Contracts & Grants		\$ 1,163								\$ 17						\$ 1,180
Total Expenses and Transfers	\$ 2,913	\$ 1,163	\$ 608	\$ 77	\$ 1,013	\$ 3,552	\$ 500	\$ 1,620	\$ 5,531	\$ 17	\$ -	\$ 695	\$ 36	\$ 112	\$ -	\$ 17,837
Net Change	\$ (61)	\$ 139	\$ (108)	\$ (27)	\$ (613)	\$ -	\$ -	\$ (620)	\$ (2,279)	\$ -	\$ 2	\$ 1,814	\$ (36)	\$ (1,616)	\$ (618)	\$ (4,023)
Ending Balance at 6/30/2018	\$ (75)	\$ 203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47	\$ 2,530	\$ -	\$ 312	\$ 1,814	\$ 219	\$ -	\$ -	\$ 5,050

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
- MACH37 Operations = MACH37 Cyber Accelerator 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.

CENTER FOR INNOVATIVE TECHNOLOGY
BUDGET ANALYSIS
 For the Six Months ended December 31, 2017

Commonwealth Projects Funded by Appropriation & Other Revenue

(In Thousands)			(In Thousands)			
ACTUAL - Jul - Dec 2017			FORECASTED - Fiscal Year 2018			
Actual	Budget	Variance	Forecast	Budget	Variance	
Revenue						
\$ 6,366	5,528	\$ 838	\$ 11,849	11,055	\$ 794	
1,070	270	800	646	515	131	
7,436	5,798	1,638	Total Revenue	12,495	11,570	925
Program Expenses						
38	37	1	R&D - Commonwealth Research and Technology Strategic Roadmap	50	50	-
7	13	(6)	R&D - Innovation and Entrepreneurship Management System	103	55	48
2,581	1,767	814	R&D - Commonwealth Research Commercialization Fund (CRCF)	4,357	3,359	998
107	117	(10)	Entrepreneur - Federal Proposal Assistance	275	279	(4)
2,737	2,207	530	Entrepreneur - Growth Acceleration Program	6,902	4,745	2,157
4	5	(1)	Broadband - Office of Telework Promotion	10	12	(2)
362	384	(22)	Broadband - Broadband Planning and Assistance	783	784	(1)
430	420	10	Commonwealth - Cyber Accelerator-MACH37	695	846	(151)
102	103	(1)	Commonwealth - Regional Growth	217	224	(7)
181	61	120	Commonwealth - Cyber Commission	1,230	545	685
118	-	118	Commonwealth - Unmanned Systems	1,197	60	1,137
73	45	28	Commonwealth - Unmanned Systems Center of Excellence	764	91	673
-	-	-	Commonwealth - Information Sharing and Analysis Organization	605	-	605
2	8	(6)	Commonwealth - Building Management	3	17	(14)
6,742	5,167	1,575	Program Expenses	17,191	11,067	6,124
Other Expenses						
97	55	42	Marketing, Advocacy, Fundraising and Miscellaneous	287	300	(13)
184	-	184	Transfer of equity from M37 EP to CIT	148	-	148
(280)	143	(423)	Unapplied (over-applied) indirects	(969)	104	(1,073)
1	198	(197)	Other Expenses	(534)	404	(938)
6,743	5,365	1,378	Total Expenses	16,657	11,471	5,186
693	433	260	Net	(4,162)	99	(4,261)

Strategic Initiatives Funded by Contracts & Grants

Entrepreneur						
17	-	17	Program Revenue - State Small Business Credit Initiative Fund	17	-	17
17	-	17	Program Expense	17	-	17
-	-	-	Profit/(Loss)	-	-	-
42	28	14	Program Revenue - SBA FAST VI	38	28	10
42	28	14	Program Expense	38	28	10
-	-	-	Profit/(Loss)	-	-	-
Strategic Initiatives						
62	63	(1)	Program Revenue - Smart City Actuator	62	63	(1)
11	47	(36)	Program Expense	11	47	(36)
51	16	35	Profit/(Loss)	51	16	35
357	-	357	Program Revenue - DHS SCIIP	1,185	-	1,185
330	-	330	Program Expense	1,097	-	1,097
27	-	27	Profit/(Loss)	88	-	88
5	-	5	Program Revenue - Governor's Datathon 2017	6	-	6
6	-	6	Program Expense	6	-	6
(1)	-	(1)	Profit/(Loss)	-	-	-
11	-	11	Program Revenue - UVA Wise Verizon Grant	11	-	11
3	-	3	Program Expense	11	-	11
8	-	8	Profit/(Loss)	-	-	-
494	91	403	Program Revenue	1,319	91	1,228
409	75	334	Program Expenses	1,180	75	1,105
85	16	69	Net	139	16	123

Consolidated Revenue, Expenses and Changes in Net Position

7,930	5,889	2,041	Revenue	13,814	11,661	2,153
7,152	5,440	1,712	Expenses	17,837	11,546	6,291
778	449	329	Change in Net Position	(4,023)	115	(4,138)
9,073	6,604	2,469	Beginning Net Position	9,073	6,604	2,469
\$ 9,851	\$ 7,053	\$ 2,798	Ending Net Position	\$ 5,050	\$ 6,719	\$ (1,669)

INNOVATION AND ENTREPRENEURSHIP INVESTMENT AUTHORITY
BUDGET ANALYSIS FOR BUILDING OPERATIONS ONLY
 For the Six Months Ended December 31, 2017

In thousands			In thousands						
ACTUAL - July to December 2017			BUILDING ANALYSIS			FORECASTED - Fiscal year 2018			
Actual	Budget	Variance		Forecast	Budget	Variance			
			REVENUE						
\$ 844	\$ 894	\$ (50)	Rental Income - lease revenue	\$ 1,578	\$ 1,656	\$ (78)			
(64)	(85)	21	Midrise revenue	(10)	(100)	90			
<u>780</u>	<u>809</u>	<u>(29)</u>		Total Revenue	<u>1,568</u>	<u>1,556</u>	<u>12</u>		
			BUILDING EXPENSES						
141	142	(1)	Payroll	283	285	(2)			
189	213	(24)	Utilities	408	408	-			
68	70	(2)	Administrative	142	145	(3)			
47	69	(22)	Operating & Maintenance	130	138	(8)			
199	210	(11)	Contracts	420	420	-			
50	50	-	Insurance	100	100	-			
27	21	6	Food Service Subsidy	53	42	11			
23	10	13	Leasing Commission and Miscellaneous	32	18	14			
<u>744</u>	<u>785</u>	<u>(41)</u>		Total Expenses	<u>1,568</u>	<u>1,556</u>	<u>12</u>		
<u>\$ 36</u>	<u>\$ 24</u>	<u>\$ 12</u>		Net Income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>		

Item 428.D.2.b

Fiscal Year 2018 Quarter 2
December 31, 2017

Investments & Grants

Center for Innovative Technology
Investments Made and Return on Prior Investments
For the six months ended December 31, 2017

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		
	<u>\$ 1,413,956.27</u>	<u>\$ 1,010,000.00</u>	<u>\$ 403,956.27</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
	<u>\$ 173,674.38</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 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
	<u>\$ 208,153.31</u>

CRCF Grants Awarded

N/A

Item 428.D.2.c

Fiscal Year 2018 Quarter 2
December 31, 2017

Financial & Programmatic

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

MACH37 LLC

Financial Report

Unaudited

As of and for the six months ended December 31, 2017

MACH37 LLC

STATEMENT OF NET POSITION

As of December 31, 2017 and 2016

	Unaudited 12/31/2017	Unaudited 12/31/2016	Change
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 153,005	\$ 1,013,578	\$ (860,573)
Total current assets	153,005	1,013,578	(860,573)
Capital assets:			
Furniture, fixtures, equipment, and trademark	83,704	83,704	-
Less accumulated depreciation and amortization	(41,185)	(22,917)	(18,268)
	42,519	60,787	(18,268)
Other assets:			
Interest in M37 Equity Pool, LLC	96,347	143,750	(47,403)
Trademark	15,000	15,000	-
Total other assets	111,347	158,750	(47,403)
Total assets	<u>\$ 306,871</u>	<u>\$ 1,233,115</u>	<u>\$ (926,244)</u>
LIABILITIES			
Current liabilities:			
Unearned revenue	\$ 56,251	\$ 783,467	\$ (727,216)
Due to CIT	288,479	412,528	(124,049)
Total current liabilities	344,730	1,195,995	(851,265)
Total liabilities	<u>\$ 344,730</u>	<u>\$ 1,195,995</u>	<u>\$ (851,265)</u>
NET POSITION			
Unrestricted	\$ (37,859)	\$ 37,120	\$ (74,979)
Total net position	<u>\$ (37,859)</u>	<u>\$ 37,120</u>	<u>\$ (74,979)</u>

MACH37 LLC

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the six months ended December 31, 2017 and 2016

	Unaudited 12/31/2017	Unaudited 12/31/2016	Change
OPERATING REVENUE			
Sponsorship Revenue	\$ 206,567	\$ 343,067	\$ (136,500)
EXPENSES			
Operating expenses	430,065	754,139	(324,074)
Depreciation and amortization	9,104	9,167	(63)
Total expenses	<u>439,169</u>	<u>763,306</u>	<u>(324,137)</u>
OTHER INCOME (EXPENSE)			
Gain (loss) on investment	<u>514</u>	<u>(2,729)</u>	<u>3,243</u>
CHANGE IN NET POSITION	(232,088)	(422,968)	190,880
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>
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>
Net position, ending	<u>\$ (37,859)</u>	<u>\$ 37,120</u>	<u>\$ (74,979)</u>

M37 Equity Pool, LLC

Financial Report

Unaudited

As of and for the six months ended December 31, 2017

M37 Equity Pool, LLC

STATEMENT OF ASSETS, LIABILITIES and MEMBERS' CAPITAL

As of December 31, 2017 and 2016

	Unaudited 12/31/2017	Unaudited 12/31/2016	Change
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,095	\$ 100	\$ 4,995
Investments in securities in portfolio companies	<u>2,104,583</u>	<u>2,036,850</u>	<u>67,733</u>
Total current assets	<u>2,109,678</u>	<u>2,036,950</u>	<u>72,728</u>
Total assets	<u>\$ 2,109,678</u>	<u>\$ 2,036,950</u>	<u>\$ 72,728</u>
LIABILITIES			
Current liabilities:			
Due to CIT	<u>\$ 3,100</u>	<u>\$ 100</u>	<u>\$ 3,000</u>
Total current liabilities	<u>3,100</u>	<u>100</u>	<u>3,000</u>
Total liabilities	3,100	100	3,000
MEMBERS' CAPITAL			
CIT and MACH37	1,564,452	1,512,933	51,519
Minority interest	<u>542,126</u>	<u>523,917</u>	<u>18,209</u>
Total members' capital	<u>2,106,578</u>	<u>2,036,850</u>	<u>69,728</u>
Total liabilities and members' capital	<u>\$ 2,109,678</u>	<u>\$ 2,036,950</u>	<u>\$ 72,728</u>

M37 Equity Pool, LLC

STATEMENT OF OPERATIONS and CHANGES IN MEMBERS' CAPITAL

For the six months ended December 31, 2017 and 2016

	Unaudited 12/31/2017	Unaudited 12/31/2016	Change
REVENUES			
Net realized investment gain (loss)	<u>\$ 2,145</u>	<u>\$ (11,392)</u>	<u>\$ 13,537</u>
Total operating revenue	2,145	(11,392)	13,537
EXPENSES			
Operating expenses	<u>90</u>	<u>-</u>	<u>90</u>
Total expenses	<u>90</u>	<u>-</u>	<u>90</u>
NET LOSS	2,055	(11,392)	13,447
Other comprehensive income - Unrealized gain on investments	<u>-</u>	<u>-</u>	<u>-</u>
COMPREHENSIVE INCOME	2,055	(11,392)	13,447
Members' capital, beginning	2,354,523	2,086,850	267,673
Members' capital contribution	-	-	-
Members' distributions	<u>(250,000)</u>	<u>(38,608)</u>	<u>(211,392)</u>
Members' capital, ending	<u>\$ 2,106,578</u>	<u>\$ 2,036,850</u>	<u>\$ 69,728</u>

M37 Carried Interest, LLC

Financial Report

Unaudited

As of and for the six months ended December 31, 2017

M37 Carried Interest, LLC

STATEMENT OF ASSETS, LIABILITIES and MEMBERS' CAPITAL

As of December 31, 2017 and 2016

	Unaudited 12/31/2017	Unaudited 12/31/2016	Change
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 11,000	\$ 5,000	\$ 6,000
Investments in securities in portfolio companies	<u>1,282,802</u>	<u>250,000</u>	<u>1,032,802</u>
Total current assets	<u>1,293,802</u>	<u>255,000</u>	<u>1,038,802</u>
Total assets	<u>\$ 1,293,802</u>	<u>\$ 255,000</u>	<u>\$ 1,038,802</u>
LIABILITIES			
Current liabilities:			
Due to CIT	<u>\$ 11,000</u>	<u>\$ 5,000</u>	<u>\$ 6,000</u>
Total current liabilities	<u>11,000</u>	<u>5,000</u>	<u>6,000</u>
Total liabilities	11,000	5,000	6,000
MEMBERS' CAPITAL			
CIT	1,015,321	245,000	770,321
Minority Interest	<u>267,481</u>	<u>5,000</u>	<u>262,481</u>
Total members' capital	<u>1,282,802</u>	<u>250,000</u>	<u>1,032,802</u>
Total liabilities and members' capital	<u>\$ 1,293,802</u>	<u>\$ 255,000</u>	<u>\$ 1,038,802</u>

M37 Carried Interest, LLC

STATEMENT OF OPERATIONS and CHANGES IN MEMBERS' CAPITAL

For the six months ended December 31, 2017 and 2016

	Unaudited 12/31/2017	Unaudited 12/31/2016	Change
REVENUES			
Investment income	\$ -	\$ -	\$ -
Total operating revenue	-	-	-
EXPENSES			
Operating expenses	-	-	-
Total expenses	-	-	-
NET LOSS	-	-	-
Other comprehensive income - Unrealized gain on investments	646,802	-	646,802
COMPREHENSIVE INCOME	646,802	-	646,802
Members' capital, beginning	631,385	-	631,385
Members' capital contribution	4,615	250,000	(245,385)
Members' capital, ending	<u>\$ 1,282,802</u>	<u>\$ 250,000</u>	<u>\$ 1,032,802</u>