

# **InvestMaryland**

## **ANNUAL STATUS REPORT**

Economic Development Article

SECTION 6-529

Submitted by:

Maryland Department of Business and Economic Development

December 2012

## Overview

Pursuant to Section §6–529 of the Economic Development Article (the “Act”), on or before January 1<sup>st</sup> of each year beginning in 2013, the Department of Business and Economic Development (the “Department”) shall submit a report on the implementation of the InvestMaryland Program (the “Program”) to the Governor and, in accordance with § 2–1246 of the State Government Article, the Senate Budget and Taxation Committee and the House Ways and Means Committee.

The Program became fully operational in calendar year 2012, and this is the first Annual Report. Section §6–529 of the Act requires information only with respect to the “previous calendar year”, which would be 2011. In 2011 the Program was not yet in operation, and therefore the information required to be reported under the Act is not available. However, Senate Bill 70 (which has already been pre-filed and will be before the 2013 Maryland General Assembly) contains technical amendments, one of which would move the date of the Annual Report to January 31<sup>st</sup> of each year, in which case in the future the “previous calendar year” would be the year just ended. For this reason, the Department is providing information for calendar year 2012 to the extent that it is available. In some cases this requires that data be estimated and in one case the information will not be available until after year end.

The Program was established in 2011 with the passage of the Act, and much of the foundation for the Program was laid that year with the formation of the Maryland Venture Fund Authority (the “Authority”) in August 2011, the Authority’s selection of consultant Grant Street Group to run the online auction of premium tax credits, and the Authority’s selection of Altius Advisors to advise the Authority on the selection of venture funds. The online auction of \$100,000,000 of premium tax credits was conducted on March 15, 2012, and the auction yielded \$84,000,000 in proceeds which will be paid to the State by the insurance company purchasers over a three year period. Meanwhile, the Authority adopted an investment strategy in consultation with Altius Advisors, and in June 2012 based on Altius Advisors’ recommendations the Authority selected and prioritized the venture firms to be considered for investment.

### I. Purchasers of Premium Tax Credits

The following insurance companies are purchasers of premium tax credits under the Program for the amounts of premium tax credits indicated:

<b>Purchasers</b>	<b>Amount Awarded</b>	<b>Price</b>	<b>Designated Capital Contributed</b>	<b>Amount Transferred Under § 6–514</b>
Hartford Insurance	\$35,000,000	\$29,400,000	\$9,800,000	\$0
Metropolitan Life Insurance Company	\$22,500,000	\$18,900,000	\$6,300,000	\$0
Medical Mutual Liability Insurance Society of MD	\$10,000,000	\$8,400,000	\$2,800,000	\$0
New York Life Insurance Company	\$10,000,000	\$8,400,000	\$2,800,000	\$0
Chubb — Federal Insurance Company	\$6,100,000	\$5,124,000	\$1,708,000	\$0
Selective Insurance	\$5,000,000	\$4,200,000	\$1,400,000	\$0

GEICO	\$4,900,000	\$4,116,000	\$1,372,000	\$0
Travelers	\$2,500,000	\$2,100,000	\$700,000	\$0
Chubb — Great Northern Insurance Company	\$2,000,000	\$1,680,000	\$560,000	\$0
Agency Insurance Company of Maryland Inc.	\$1,000,000	\$840,000	\$280,000	\$0
Injured Workers Insurance Fund	\$1,000,000	\$840,000	\$280,000	\$0
<b>TOTAL</b>	<b>\$100,000,000</b>	<b>\$84,000,000</b>	<b>\$28,000,000</b>	<b>\$0</b>

## II. Venture Firms Receiving an Allocation of Designated Capital

Of the \$84,000,000 in designated capital raised in the premium tax credit auction, 67% or \$56,280,000 is allocated under the Program to investments in venture firms that commit to investing that amount in Qualified Businesses in the State. The venture fund investments are subject to oversight by the Maryland Venture Fund Authority (the “Authority”). From among the 37 venture firms that applied for InvestMaryland investment, the Authority selected and prioritized firms for investment. It is anticipated that the InvestMaryland funds will be invested in 6-8 venture firms. The Department currently is in the process of negotiating investment terms with the venture firms selected by the Authority for allocations. Two venture firm investment commitments have closed to date and negotiations are underway with another six firms.

The following venture firms received commitments of designated capital in 2012, although the capital will be called over the 10-year life of each fund. As indicated below, no dollars were received by New Atlantic Fund IV or Kinetic Ventures in 2012; those commitments closed in late December and the State’s checks could not be processed prior to December 31<sup>st</sup>.

Venture Firm	Address	Qualified Individuals	Designated Capital Committed	Designated Capital Received in 2012	Cumulative Designated Capital Rec'd	Designated Capital Remaining Uninvested	Amount of Qualified Distributions in 2011
Grotech Ventures IV, L.P.	230 Schilling Circle Suite 362 Hunt Valley MD 21031	Frank Adams, Chuck Cullen, Steve Frederick, Don Rainey, Lawson Devries	\$12,000,000	\$2,347,193	\$2,347,193	\$9,652,807	\$0
New Atlantic Fund IV, LLC	11911 Freedom Dr. Suite 1080 Reston, VA 20190	John Backus, Thanasis Delistathis, Todd Hixon, Scott Johnson	\$8,000,000	\$0	\$0	\$8,000,000	\$0
Kinetic Ventures	2 Wisconsin Circle, Suite 620, Chevy Chase, MD 20815	Jake Tarr, William Heflin, Nelson Chu	\$5,000,000	\$0	\$0	\$5,000,000	\$0
			\$25,000,000	\$2,347,193	\$2,347,193	\$22,652,807	\$0

The venture firms invested in the following Qualified Businesses in the State of Maryland in 2012:

Venture Firm	Name and Location of Qualified Businesses	Amount Received by Qualified Business	Valuation
Grotech Ventures IV, L.P.	Optoro, Inc., Lanham, MD	\$3,500,000	\$3,500,000

### III. The Enterprise Fund (Maryland Venture Fund)

The Enterprise Fund (the “Maryland Venture Fund” or “MVF”) undertook to implement the Authority’s recommendations regarding the selection of venture firms for allocations of designated capital under the Program. This has entailed negotiating the terms of investment with each venture firm. As noted above, commitments in three venture firms were closed in 2012, and MVF is currently in negotiations with six other venture firms with respect to further allocations of designated capital in calendar year 2013. All firms that receive allocations must commit to investing in Qualified Businesses located in Maryland an amount equal to the State’s investment in that firm.

In addition to implementing that portion of the Program that invests in venture firms, MVF has also been actively implementing the direct investment portion of the Program. As noted above, 67% of the designated capital raised in the premium tax credit auction is allocated to venture firm investments; after first deducting \$250,000 allocated to the Rural Maryland Council, 75% of the remainder is allocated to MVF for direct investment. Designated capital received by MVF in 2012 and cumulative through December 31, 2012 is as follows:

Designated Capital Allocation	Designated Capital Received in 2012	Cumulative Designated Capital Received	Designated Capital Remaining Uncommitted
\$20,602,500	\$6,742,500	\$6,742,500	\$2,324,922

MVF received its allocation of designated capital in June 2012 and therefore was able to invest those funds only during the second half of calendar year 2012. During that time, MVF invested in a total of seven Qualified Businesses as follows:

Qualified Business	Location	Designated Capital Received by Qualified Businesses in 2012	Total Committed Incl. Encumbered Follow-on Reserve	Valuation
Plasmonix, Inc.	Baltimore	\$100,000	\$200,000	\$100,000
Pathsensors, Inc.	Rockville	\$200,000	\$600,000	\$200,000
BrainScope Co., Inc.	Bethesda	\$250,000	\$1,000,000	\$250,000
Bambeco, LLC	Baltimore	\$600,000	\$1,200,000	\$600,000
Maxtena, Inc.	Rockville	\$560,000	\$1,120,000	\$560,000
Zenoss, Inc.	Annapolis	\$148,789	\$297,578	\$148,789
3CLogic, Inc.	Rockville	\$390,000	\$780,000	\$390,000
		\$2,248,789	\$4,417,578	\$2,248,789

### IV. The Maryland Small Business Development Financing Authority

As noted, 67% of the designated capital raised in the premium tax credit auction is allocated to venture firm investments; after first deducting \$250,000 allocated to the Rural Maryland Council, 25% of the remainder is allocated to the Maryland Small Business Development Financing Authority (“MSBDF”) for direct investment. Designated capital received by MSBDF in 2012 and cumulative through December 31, 2012 is as follows:

Designated Capital Allocation	Designated Capital Received in 2012	Cumulative Designated Capital Received	Designated Capital Remaining Uninvested
\$6,867,500	\$2,247,500	\$2,247,500	\$2,247,500

## V. Qualified Businesses

With respect to the Qualified Businesses in which venture firms, MVF, or MSBDFA have invested designated capital, the Department will not receive information from the Qualified Businesses regarding average wages for 2012 until after year-end. The other information required for this report is set forth below:

Qualified Business	Industry Sector	Size of Business	Jobs Created	Average Wage	Jobs Retained	Average Wage
Plasmonix, Inc.	Life Sciences	Small	NA		3	
Pathsensors, Inc.	Life Sciences	Small	17		13	
BrainScope Co., Inc.	Medical Instruments	Small	22		25	
Bambeco, LLC	Ecommerce	Small	16		33	
Maxtena, Inc.	Telecommunications	Small	5		11	
Zenoss, Inc.	Information Technology	Small	195		110	
3CLogic, Inc.	Information Technology	Small	5		10	
Optoro, Inc.	Information Technology	Small	58		31	
			318		236	