

Martin O'Malley Governor
Anthony G. Brown Lt. Governor



Robert L. Walker Acting Secretary

January 6, 2015

The Honorable Thomas V. Mike Miller, Jr.
President, Maryland Senate
State House, H-107
Annapolis, Maryland 21401-1991

The Honorable Michael E. Busch
Speaker, Maryland House of Delegates
State House, H-101
Annapolis, Maryland 21401-1991

RE: Cybersecurity Investment Incentive Tax Credit

Dear President Miller and Speaker Busch:

In accordance with the Tax-General Article, Section 10-733 the Department of Business and Economic Development is pleased to submit the annual report on the Cybersecurity Investment Incentive Tax Credit Program.

I look forward to your review of this report and will be happy to furnish any additional information that is needed. If my staff or I can be of further assistance, or if you have any questions regarding this report, please contact me at 410-767-6302.

Sincerely,



Robert L. Walker
Acting Secretary

Enclosure

DIVISION OF FINANCE
CYBERSECURITY INVESTMENT INCENTIVE
TAX CREDIT PROGRAM

ANNUAL STATUS REPORT
TAX YEAR 2014
TAX-GENERAL ARTICLE

SECTION 10-733

Submitted by:

Maryland Department of Business and Economic Development

January 2015

STATUS REPORT CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT CALENDAR YEAR 2014

PROGRAM OVERVIEW

Maryland's Cybersecurity Investment Incentive Tax Credit program provides income tax credits for Qualified Maryland Cybersecurity Companies (QMCCs). The program was enacted during the 2013 legislative session of the Maryland General Assembly (HB803) to offer incentives for investment in early stage privately-held cybersecurity companies. The program will be funded as of January 1, 2014 and each subsequent fiscal year through December 31, 2018 in the amount of at least \$2,000,000. The Maryland Cybersecurity Investment Incentive Tax Credit program sunsets on June 30, 2019, unless further action is taken by the General Assembly. The program's Fiscal Year 2014 funding was \$3,000,000. Additionally, the program received an appropriation for Fiscal Year 2015 of \$4,000,000.

The value of the credit is equal to 33% of an eligible investment made in a QMCC during the fiscal year. The maximum amount of the credit cannot exceed \$250,000 from each qualified investor. The tax credits for investments in a single qualified QMCC cannot exceed 15% of the program's fiscal year funding.

The total amount of Final Tax Credit Certificates issued in each fiscal year cannot exceed the amount appropriated to the reserve fund in the State budget. All applications are reviewed and approved by the Maryland Department of Business and Economic Development (DBED) on a first-come, first-serve basis.

Qualifications

A Qualified Maryland Cybersecurity Company is cybersecurity company subject to certification by DBED and (1) has its headquarters and base of operations in the State of Maryland; (2) has not participated in the tax credit program under this section for more than 1 prior fiscal year; (3) has been in active business no longer than 5 years; (4) has an aggregate capitalization of at least \$100,000; (5) owns or has properly licensed any proprietary cybersecurity technology; (6) has fewer than 50 full-time employees; (7) does not have its securities publicly traded on any exchange; (8) is organized for profit and in good standing; (9) is current in the payment of all tax obligations to the State or any unit or subdivision of the State; and (10) is not in default under the terms of any contract with, indebtedness to, or grant from the State or any unit or subdivision of the State.

A Qualified Investor is an individual or entity who invests at least \$25,000 in a QMCC and that is required to file an income tax return in any jurisdiction.

Applying for the Credit

At least 30 calendar days but no more than 60 calendar days prior to making a qualifying investment, a qualified investor must complete and mail the Maryland Cybersecurity Investment Incentive Application Forms to DBED. A complete application includes both investor forms (Form A1, A2, or A3) and the Maryland Cybersecurity Company Form (Form B). Only mailed applications are accepted. Electronic or faxed applications cannot be accepted. Complete forms must include all information described in the instructions of each form. Incomplete applications are rejected.

For Fiscal Year 2015, the Maryland Cybersecurity Investment Incentive Tax Credit program began accepting applications on June 2, 2014. Completed applications with all attachments were accepted at the DBED (ATTN: Tax Incentives) offices located at World Trade Center, 401 East Pratt Street, 17th Floor, Baltimore, MD 21202. A User Name and Reference Number was issued within 48 hours, except applications received after June 27, 2014 had a User Name and Reference Number issued after July 1, 2014.

The second step of the application process - the electronic filing process - started at 9:00 am EDT on July 1, 2014, through the cybertaxcredit.choosemaryland.org website. Submission order of the applications is determined by “first-come, first-served” based ONLY on the electronic submission of the User Name and Reference Number. No physical application is filed for purposes of the ordering of first-come, first-serve. Multiple submissions by an applicant using the same user name and reference number is considered filed at the date and time of the LAST submission (This rule is to maintain that the application procedure is as fair and equitable as possible.). Any decision made by DBED during the application process is considered final.

Certification Process

Applications are reviewed and approved based on the first-come, first-served order. Applications and proof of investment forms are reviewed by a reviewer who is a member of the Cybersecurity Investment Incentive Tax Credit Committee. The application and proof of investment forms are then presented to the Committee for action during meetings held periodically. The Committee is comprised of a panel composed of experts in the area of cybersecurity technology and DBED professional employees with expertise in cybersecurity technology, venture capital funding, business law and taxation.

Upon approval of an application, DBED will issue an initial tax credit certificate certifying the amount of any approved tax credits to a QMCC or offer rejection. A qualified investor has 30 days after the date DBED issues the initial tax credit to make an investment in the QMCC. Within 10 days of making the investment, the QMCC shall provide written notice with supporting documentation to DBED. If the QMCC fails to provide notice of investment to DBED within 40 days after the issuance of the initial tax credit certificate DBED shall rescind the certificate. Based on the actual amount of an investment made by the investor, DBED issues a Final Tax Credit Certificate to the QMCC.

Initial Tax Credits can be rescinded due to the fact that the prospective Investor decides to invest less than the amount originally applied for or decides not to invest at all. Unused Tax Credits revert back to the program's reserve fund for the next investor in line.

Applicants are made aware that all information submitted in or accompanying an application may be subject to the provisions of the Maryland Public Information Act (Md. Code, State Government Article, Title 10, Subtitle 6, Part III) and to the provisions of Md. Code, Tax General Article, §10-733.

CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT PROGRAM ACTIVITY FOR CALENDAR YEAR 2014

Since HB803 passed in 2013, DBED began implementing the program by creating a website to provide program information including application forms and instructions, frequently asked questions, and access to the statute. DBED also created an online registration website to establish the application submission order to ensure "first come, first served" basis for potential investors. In addition, DBED is developing regulations as well as marketing the program.

Beginning January 1, 2014, DBED received a total of 25 applications for the Cybersecurity Investment Incentive Tax Credit. Of the 25 applications received in 2014, 20 resulted in the issuance of Initial Tax Credit Certificates. Four applications issued an Initial Tax Credit Certificate were rescinded. Three applications were rejected for various reasons, including letter of withdrawals. Two applications are pending approval of Initial Tax Credits.

To date, the program has been mildly received by the industry and investors but attracted \$3,833,759 in total capital investment into QMCCs. For calendar year 2014, a total of \$1,525,725 in Initial Tax Credit Certificates were awarded. This amount must then be reduced by \$466,500 to account for rescissions of Initial Tax Credit Certificates and further reduced by \$34,650 to account for differences in amounts actually invested by Investors in QMCCs. Therefore, the amount of Final Tax Credit Certificates awarded as of December 31, 2014 is \$1,024,575.

Of the three CIITCs to receive investments through the program during calendar year 2014, one is located in Baltimore City, one in Baltimore County, and one in Frederick County.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

MARYLAND CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT PROGRAM

CALENDAR YEAR 2014 REPORT - INITIAL TAX CREDIT CERTIFICATES

ID #	INVESTOR		APPROVED ALLOWABLE INITIAL TAX CREDIT (\$)	MARYLAND CYBERSECURITY COMPANY	COMPANY ADDRESS	COMPANY LOCATION (MD CITY)	COMPANY ZIPCODE	COMPANY LOCATION (MD COUNTY)	RECEIPT OF APPLICATION (DATE)	DEPARTMENT APPROVAL OF INITIAL CERTIFICATE (DATE)
1	Andrew E.	Eye	33,000	Riskive, Inc. DBA Zero Fox	1111 Light St., Fl 3	Baltimore	21230	Baltimore City	1/13/2014	2/19/2014
2	Gustavo Leonardo Bessalel and Amena	Ali	7,800	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	3/31/2014
4	Mark Lawrence	Joseph	23,100	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	2/19/2014
5	Neal Jerry Simon and Jennifer Brown	Simon	16,500	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	2/19/2014
6	Timothy Joseph	Webb	16,500	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	2/19/2014
7	Roger Richter and Barbara Ann	Richter	82,500	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	2/19/2014
8	Core Capital Partners III, LP	c/o Pascal Luck	99,000	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	3/31/2014 * 2/19/2014
11 *	JHB Ventures Security Holdings, LLC	c/o Lindsay Lee	107,250	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	2/19/2014
12 *	Passport Ventures Security Software LLC	c/o Lindsay Lee	132,000	Luminal, Inc.	47 East All Saints Street	Frederick	21701	Frederick	1/13/2014	2/19/2014
13	Core Capital Partners III, LP	c/o Mark Levine	247,500	Riskive, Inc. DBA Zero Fox	1111 Light St., Fl 3	Baltimore	21230	Baltimore City	1/14/2014	2/19/2014
14	Genacast Ventures, LLC	c/o Gil Beyda	169,500	Riskive, Inc. DBA Zero Fox	1111 Light St., Fl 3	Baltimore	21230	Baltimore City	1/14/2014	2/19/2014
15	Core Capital Partners III, LP	c/o Mark Levine	202,500	Riskive, Inc. DBA Zero Fox	1111 Light St., Fl 3	Baltimore	21230	Baltimore City	3/21/2014	3/31/2014
16	Genacast Ventures, LLC	c/o Gil Beyda	247,500	Riskive, Inc. DBA Zero Fox	1111 Light St., Fl 3	Baltimore	21230	Baltimore City	3/21/2014	3/31/2014
17	Douglas Robert	Riley	19,800	Integrata, Inc.	5520 Research Park Dr., Suite 100	Baltimore	21228	Baltimore	4/11/2014	4/28/2014
18	Julie	Belkin	13,200	Integrata, Inc.	5520 Research Park Dr., Suite 100	Baltimore	21228	Baltimore	4/11/2014	4/28/2014
19	Steven	Kreseski	49,500	Integrata, Inc.	5520 Research Park Dr., Suite 100	Baltimore	21228	Baltimore	4/15/2014	4/28/2014

* 12/31/2014 Adjustments

GREY SHADING = Rescission of Initial Tax Certificate

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

MARYLAND CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT PROGRAM

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20	M+M Holdings LLC	c/o Arsham Mirshah	9,900	Integrata, Inc.	5520 Research Park Dr., Suite 100	Baltimore	21228	Baltimore	4/15/2014	4/28/2014
21	SilverRhino LLC	c/o William Edward Webb	11,550	Integrata, Inc.	5520 Research Park Dr., Suite 100	Baltimore	21228	Baltimore	4/21/2014	5/6/2014
22	Brenndan Michael	Mohler	16,500	Integrata, Inc.	5520 Research Park Dr., Suite 100	Baltimore	21228	Baltimore	4/23/2014	4/28/2014
23	Elisabeth Siegenthaler	Rubin	20,625	Integrata, Inc.	1414 Key Highway, Suite 201	Baltimore	21230	Baltimore City	7/29/2014	8/8/2014
			\$1,525,725							
CALENDAR YEAR - TOTAL INITIAL TAX CREDIT CERTIFICATES AWARDED (\$)			\$1,525,725							
LESS: TOTAL RESCISSIONS, INITIAL TAX CREDIT CERTIFICATES AWARDED (\$)			-466,500							
LESS: * ADJUSTMENT, LOWER/HGHTER ACTUAL INVESTMENTS (\$)			-34,650							
FINAL TAX CREDIT CERTIFICATES AWARDED (\$) - CALENDAR YEAR			\$1,024,575							

* 12/31/2014 Adjustments

GREY SHADING = Rescission of Initial Tax Certificate