



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: September 23, 2008
TO: Michigan Economic Growth Authority
FROM: Val Hoag, Director *VH*
Portfolio Management & Packaging

Greg West, Project Specialist
Business Development and Attraction

SUBJECT: Briefing Memo – Barracuda Networks, Inc.
High-Technology MEGA Credit

COMPANY NAME:

Barracuda Networks, Inc.
3175 Winchester Blvd
Campbell, California 95008

HISTORY OF COMPANY:

Barracuda Networks, Inc. is the worldwide leader in email and Web security appliances. Barracuda Networks also provides world-class IM protection, application server load balancing and message archiving appliances. Since its inception in 2004, Barracuda Networks continues to gain wide acclaim from customers, media and analysts by offering exceptional customer service, top-notch products and engaging partner programs.

More than 50,000 companies, including Coca-Cola, FedEx, Harvard University, IBM, L'Oreal, NASA, and Europcar, are protecting their networks with Barracuda Networks solutions. The company is privately held with its international headquarters and manufacturing facility based in Campbell, California. Barracuda Networks has offices in eight international locations and distributors in more than 80 countries worldwide.

Barracuda Networks, Inc. currently has 23 employees in Michigan.

PROJECT DESCRIPTION:

Barracuda seeks to expand its product portfolio and build new projects in an expanded research and development center, which would require a relocation to a larger existing building in Ann Arbor, Washtenaw County. The company plans to create 185 jobs over the five year period. Staffing positions include software developers, quality assurance engineers, as well as technical support staff and managers for the related newly developed products. Total investment over five years will be approximately \$2.55 million. This project will create 185 new jobs with an average weekly wage of \$680, with a proposed increase to \$984 a week by 2014. The company will also offer health care benefits and pay a portion of the benefit costs.

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BENEFITS TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will create a total of 351 jobs in the state by the year 2016. We also estimate that the project would create total state government revenues through the year 2016, net of MEGA cost and adjusted for inflation, of \$4.5 million (2008 dollars) due to the creation of these new jobs.

BUSINESS CASE:

Alternatively, the company has considered various locations for this project including their current research and development center in Bangalore, India. Expanding in India would produce costs savings for the company, as wages, health care, workers compensation and operational costs are significantly lower. In addition to the higher costs associated with operation in Michigan, there is a shortage of available technology workers with the exact experience that the company is looking for. Barracuda will likely move employees from California or other regions, and/or place heavy efforts in recruiting, which will force the company to incur additional expenses.

OTHER STATE AND LOCAL ASSISTANCE:

The City of Ann Arbor will be providing local assistance by paying the MEGA application fee for this project.

The MEDC has also approved training funds for the project. Through our Economic Development Job Training program, the MEDC will provide an employee training grant of \$1,000 per job for up to 79 new and existing jobs. This training grant could be worth up to \$79,000.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY:

The company is a qualified high-technology business, whose primary business activity is Advanced Computing, as defined in the Act.

RECOMMENDATION:

Based on the factors described above, the Michigan Economic Development Corporation recommends utilizing the 200 percent pull-ahead method. However, because the credit is 80 percent staff recommends a 160 percent personal income tax withholding credit for each of the first three years and an 80 percent credit for each of the remaining four years, for up to 185 net new employees.