

2011 Annual Report

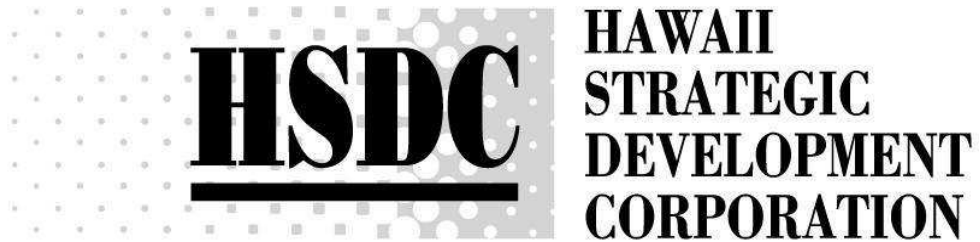


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Message from the Chairman

I am pleased to report that in May 2011 HSDC received a \$13 million allocation from the U.S. Department of Treasury's State Small Business Credit Initiative. HSDC's successful application for these funds was supported by Governor Abercrombie's administration. Governor Abercrombie's New Day Plan calls for programs to support capital formation for Hawaii's technology sector and HSDC will use the SSBCI allocation to invest in Hawaii based investment funds able to catalyze private sector investment in Hawaii technology companies.

We are pleased to welcome two new members to the HSDC Board of Directors, Keiki-Pua Dancil and Jon Wallenstrom. Keiki-Pua Dancil brings to the board her experience as a scientist and her management experience with technology startups. Jon Wallenstrom will be able to contribute his experience with raising capital for a number of development projects and his experience implementing clean tech projects. Richard Lim, Director, Department of Business, Economic Development and Tourism, joined our board as the DBEDT representative. John DeLong, President, Hawaii Cement, joined our board as the representative from the Natural Energy Laboratory of Hawaii Authority.

Roland Resurreccion and Ed Young had their terms as HSDC board members expire this past year and we thank them for their many years of service to HSDC.

Next year promises to be an exciting year as we implement our venture capital investment program with the funds from the SSBCI program. In addition, we will continue to focus on efforts to increase the competitiveness of our technology companies with events like the NASDAQ Road to IPO Pitch Competition and the Hawaii Venture Capital Summit and efforts to advance the understanding of the importance of supporting capital formation in our economy through our Best Practices in State Investment Program Symposium held each year.

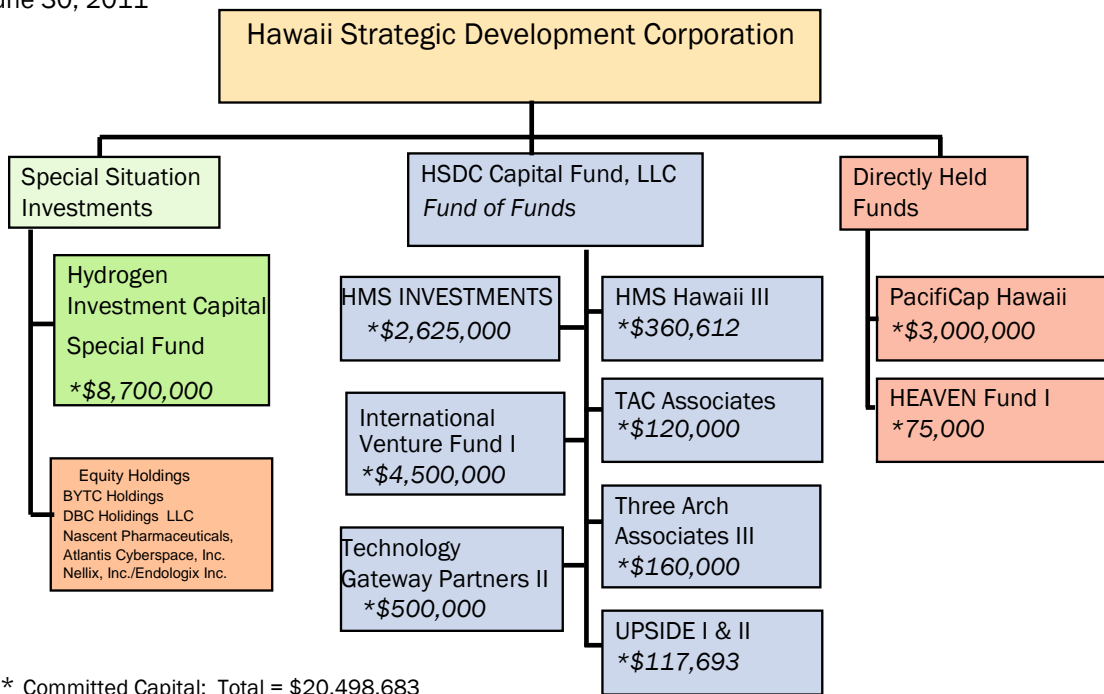
Danton Wong

Chairman
Board of Directors

HSDC's Investment Portfolio

As of June 30, 2011, HSDC's investment portfolio totaled \$11.7 million in invested capital. The portfolio has returned \$4.2 million to date and the current carrying value of the investments is \$3.9 million, including \$832 thousand of cash awaiting investments held at HSDC Capital Fund, LLC, a fund of funds that is the legal entity through which HSDC holds most of its investments in venture partnerships. HSDC also administered DBEDT's \$8.7 million Hydrogen Fund program.

June 30, 2011



HSDC Investment Portfolio
June, 30, 2011

Active Funds	Pro Rata Interest	Mgt. Fee	Vintage Year	Capital Commitment	Capital Contributed	Cash and Securities Distributed	Reported Value ²	Distributions + Reported Value	Date of Latest Report
Heaven Fund 1 Series B & C (Rob Robinson)	100.00%	3.00%	2007	\$ 75,000	\$ 75,000	\$ -	\$ 55,314	\$ 55,314	12/31/2010
HMS Investments (Dick Grey, William Richardson)	80.00%	3.50%	1995/ 2003	\$ 2,625,000	\$ 2,662,968	\$ 3,242,685	\$ 498,354	\$ 3,741,039	6/30/2011
HMS Hawaii III (Dick Grey, William Richardson)	12.10%	2.50%	2004	\$ 360,612	\$ 349,794	\$ 162,581	\$ 148,332	\$ 310,913	6/30/2011
International Venture Fund I (Debra Guerin, Kirk Westbrook)	27.01%	2.50%	2000	\$ 4,500,000	\$ 4,500,000	\$ -	\$ 1,454,364	\$ 1,454,364	6/30/2011
PacifiCap Hawaii (Jeff Au)	99.00%	2.50%	2000	\$ 3,000,000	\$ 3,000,000	\$ 547,113	\$ 669,121	\$ 1,216,235	6/30/2011
TAC Associates (Wilfred Jaeger, Mark Wan, William Harrington, Richard Lin)	0.87%	1.50%	2008	\$ 120,000	\$ 76,107	\$ 8,440	\$ 68,203	\$ 76,643	6/30/2011
Technology Gateway Partners II (Thomas Gephart)	3.24%	2.25%	2004	\$ 500,000	\$ 500,000	\$ 175,924	\$ 32,947	\$ 208,872	6/30/2011
Three Arch Associates III (Wilfred Jaeger, Mark Wan, William Harrington, Richard Lin)	1.58%	1.50%	2000	\$ 160,000	\$ 111,223	\$ 110,314	\$ 84,825	\$ 195,139	6/30/2011
UPSIDE (UH Foundation)	18.75%	1.50%	2004	\$ 117,693	\$ 117,693	\$ -	\$ 90,923	\$ 90,923	6/30/2011
TOTAL ACTIVE FUNDS				\$11,458,305	\$11,392,786	\$ 4,247,058	\$ 3,102,383	\$ 7,349,441	

Active Equity Holdings	Pro Rata Interest	Mng. Fee	Vintage Year	Capital Commitment	Capital Contributed	Cash and Securities Distributed	Reported Value ²	Distributions + Reported Value	Date of Latest Report
DBC Holdings LLC (fka Dragon Bridge Capital)	1.67%	N/A	N/A	\$ -		\$ 1,031	\$ -	\$ 1,031	5/28/2011
Nascent Pharmaceuticals ⁵	0.19%	N/A	N/A	\$ -		\$ -	\$ -	\$ -	6/28/2011
BYTC Corp (fka Neugenesi s ³)	0.25%	N/A	N/A	\$ -	\$ 128,401	\$ -	\$ -	\$ -	4/26/2011
Atlantis Cyberspace ³	0.98%	N/A	N/A	\$ -	\$ 115,560	\$ -	\$ -	\$ -	1/5/2011
Nellix ⁴								\$ -	
SERIES B PREFERRED STOCK Endologix Inc.	0.23%			\$ -	\$ 40,000		\$ -	\$ -	6/30/2011
				\$ -	\$ 6,417		\$ 9,728	\$ 9,728	6/30/2011
TOTAL ACTIVE EQUITY				\$ -	\$ 290,378		\$ 9,728	\$ 10,759	
TOTAL ACTIVE PORTFOLIO				\$11,458,305	\$11,683,163	\$ 4,247,058	\$ 3,112,111	\$ 7,360,200	

2/ Valuations are as of the most recent data available from General Partners.

3/ Distribution from the dissolution of Keo Kea Hawaii, LP

4/ Distribution from the dissolution of Lava Ventures IV, LLC

5/ Distribution from the dissolution of Hawaii Venture Fund

Below are descriptions of HSDC's active investment portfolio with the amount of capital invested in each fund as of June 30, 2011:

Hawaii-based Venture Capital Funds

HMS Investments; \$2.66 million: Initial investment in September 1995. HSDC holds an 80% limited partner interest in this Hawaii based venture capital investment partnership. The investment portfolio consists of private equity investments in Firetide and Hawaii Biotech.

HMS Hawaii III; \$0.35 million: Initial investment in March 2004. HSDC holds a 12.1% limited partner interest in this Hawaii based venture capital partnership. The investment portfolio consists of private equity investments in AGIS Network, Sprout, and Firetide. It also holds publicly traded shares of Hoku Scientific.

PacifiCap Hawaii, L.P.; \$3.0 million: Initial investment in June 2000. HSDC holds a 99% limited partner interest in this Hawaii based venture capital partnership. The investment portfolio consists of private equity investments in Fresh Direct Holdings Inc., 4Charity.com, Iris Wireless, Bivision Systems and Trex-Cross Fiber VIPP Note.

Regional Venture Capital Funds

International Venture Fund I; \$4.5 million: Initial investment in April 2000. HSDC holds a 27.01% limited partner interest in this California based venture capital partnership. The investment portfolio consists of private equity investments in Lumidigm, Napo Pharma, AssistGuide, Hawaii Biotech, and Cardax Pharmaceuticals.

TAC Associates; \$ 0.076 million: Received a 0.87% limited partner interest in this California based venture capital partnership as a distribution from the dissolution of Lava Ventures IV.

Three Arch Associates III; \$ 0.111 million: Received a 1.58% limited partner interest in this California based venture capital partnership as a distribution from the dissolution of Lava Ventures IV.

Technology Gateway Partners II; \$0.5 million: Initial investment in April 2004. HSDC holds a 3.24% limited partner interest in this California based venture capital partnership. The investment portfolio consists of Perlan Therapeutics and Neophotonics.

Fund to Support Hawaii Angels

Heaven Fund I; \$0.075 million: Initial investment in November 2007. HSDC holds a 3.0% limited partner interest in the Series B and Series C of this Hawaii based venture capital partnership. This investment partnership supports investments made by the Hawaii Angels, a Hawaii based Angel investing network.

Fund to Support Technology Transfer from the University of Hawaii

UPSIDE I; \$0.118 million: Initial investment June 2003. HSDC holds a 23.84% interest in this pooled capital fund. The balance is held by the Research Corporation of the University of Hawaii. The capital fund is tasked with investing in promising start-up companies using UH developed intellectual property. HSDC holds an 18.75% interest in the original UPSIDE investment portfolio which consists of private equity investments in Pipeline Micro and Kuehnle Agrosystems.

Direct Equity Holdings

HSDC directly holds share certificates, due largely to the liquidation of previous investment partnerships, in the following companies: Neugensis, Atlantis Cyberspace, DBC Holdings LLC, Nascent Pharmaceuticals, Nellix Inc., and Endologix Inc.

Administrative Agent State Investment Programs

The Hydrogen Investment Capital Special Fund; \$4.4 million: Despite its authorization in 2006, the investment program did not begin until December 2008. HSDC is the administrative agent for this DBEDT managed \$8.7 million program, which is divided equally between an investment program and a cost match grant program, both contracted out to Kolohala Ventures to implement. To date, the equity investment program has invested in a portfolio of Hawaii based clean energy

companies consisting of: Clearfuels Technology, Kuehnle Agrosystems, Big Island Biodiesel, Real Green Power and Phycal LLC. These investments have been instrumental in mobilizing resources for these companies to export their clean energy technologies and leverage Hawaii's commitment to a clean energy future.

Financial Report

Revolving Fund (\$000)

HSDC funds its operations and investments through the HSDC Revolving Fund and from returns on investment generated through the HSDC Capital Fund, LLC.

FY Ending	6/30/2009	6/30/2010	6/30/2011
Interest Income/Partnership Distributions	\$89	\$8	\$207
Investments	\$0	\$0	\$0
Operating expenditures	\$101	\$161	\$113
HSDC Revolving Fund Balance	\$466	\$313	\$407
HSDC Capital Fund, LLC			
Uncommitted cash awaiting investment	\$790	\$817	\$832

Special Funds (\$000)

Act 240, SLH 2006 established the Hydrogen Investment Capital Special Fund within HSDC, with expenditures to be overseen by the Department of Business, Economic Development and Tourism. The fund was capitalized with \$10,000,000 in October 2006. In June 2009, Act 79, SLH 2009, Sect. 12, transferred \$2,000,000 out of the fund and back to the general fund.

Act 267, SLH 2007 provided \$5 million for the Follow on Funding Program within HSDC.

HSDC was allocated \$13,168,500 from the U.S. Department of Treasury's Small Business Credit Initiative (SSBCI). The first tranche of \$4,345,556 was received in June 2011.

FY Ending	6/30/2009	6/30/2010	6/30/2011
Hydrogen Investment Capital Special Fund	\$4,839	\$4,379	\$2,309
R&D Follow on Funding Program	\$350	\$100	closed
SSBCI Venture Capital Investment Program			\$4,346

HSDC's Board of Directors
Fiscal Year 2011

Danton S. Wong, Chairman
Attorney/Partner
Chun Kerr Dodd Beaman & Wong

Eric B. Yee, Vice Chairman
Vice President, Private Banking
First Hawaiian Bank

John DeLong
President
Hawaiian Cement

H. Brian Moore
Senior Vice President
Pacific Guardian Life Insurance Co.

Richard Lim
Director
Department of Business, Economic
Development & Tourism

Roland Resurreccion, AIA LEED
Project Manager
Hawaii Pacific Health
Design and Construction

Blenn Fujimoto
President and CEO
Central Pacific HomeLoans Inc.

Edward H. W. Young
TEYC Hawaii

Assumpta Siu Rapoza
Director, Enterprise Risk Mgt.
Hawaii Medical Service Association

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