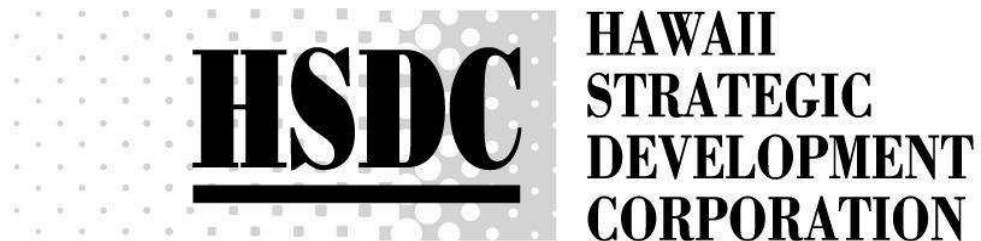


# 2012 Annual Report





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## Message from the Chairman

This past year, HSDC achieved two significant milestones. In November 2011, we closed our first investment in a Hawaii based venture capital fund using funds from the \$13 million State Small Business Credit Initiative (SSBCI) allocation HSDC received from the U.S. Department of Treasury. The fund, UPSIDE Fund II, is a \$6 million fund capitalized with a \$3 million investment from HSDC and a \$3 million investment from the University of Hawaii Foundation. Members of the University of Hawaii Foundation Finance Committee with venture capital experience manage the fund. UPSIDE will target investment opportunities in startups that license technology developed at the University of Hawaii. The fund has already completed two investments and is working with the university and investor communities to evaluate more investment opportunities.

In May 2012, The Hawaii State Legislature passed a bill appropriating \$2 million for HSDC to develop a venture accelerator funding program. Governor Abercrombie signed the bill into law and HSDC began implementation of the Launch Akamai Venture Accelerator (LAVA) Program in July 2012. This program seeks to support the establishment of several venture accelerators in our community to enable our entrepreneurs to successfully launch business able to compete in global markets and attract investment capital.

Through these two initiatives, both the investor community and the entrepreneur community have engaged with HSDC. We are strongly encouraged by the passion and commitment these groups have shown to the opportunity of growing Hawaii's innovation sector. The board extends its thanks to HSDC's President, Karl Fooks, for leading these initiatives.

We are pleased to welcome three new members to the HSDC Board of Directors, Alan Hayashi, Philip Bossert and James Moonier. Alan Hayashi contributes his extensive business experience, including his activities with the Dual Use community. Philip Bossert brings to the board his diverse experiences with state government, as an entrepreneur, and as an educator. James Moonier will be able to contribute his experience with as an investment banker raising capital and as fund of funds investment manager. We wish to thank Blenn Fujimoto for his many years of service as his term expired at the end of this year.

Next year promises to be even more challenging as we continue to implement our venture capital investment program with the funds from the SSBCI program and the LAVA program. In addition, we will continue to focus on efforts to increase the competitiveness of our technology companies with events like the Accelerate Hawaii Innovation Conference and efforts to advance the understanding of the importance of capital formation in our economy through our Best Practices workshops, which this year featured leading venture accelerator operators from across the nation.

H. Brian Moore  
Chairman  
Board of Directors



## Launch Akamai Venture Accelerator (LAVA) Program

On June 27, 2012 Governor Abercrombie signed into law Act 170, passed by the Hawaii State Legislature as HB2319. Act 170 enabled the creation of the Launch Akamai Venture Accelerator (LAVA) Program, a funding program to support Hawaii based accelerator programs. This program provides funds that will be competitively allocated to entities providing hands-on mentoring to startups to accelerate the startups' ability to attract venture capital financing. Some of funds could potentially be used to provide capital for the startups' proof of concept efforts.

By supporting infrastructure that provides entrepreneurs the tools to build businesses able to compete for venture capital financing, venture accelerators will enhance the ability of Hawaii's entrepreneurs to create sustainable businesses and quality jobs in our community.

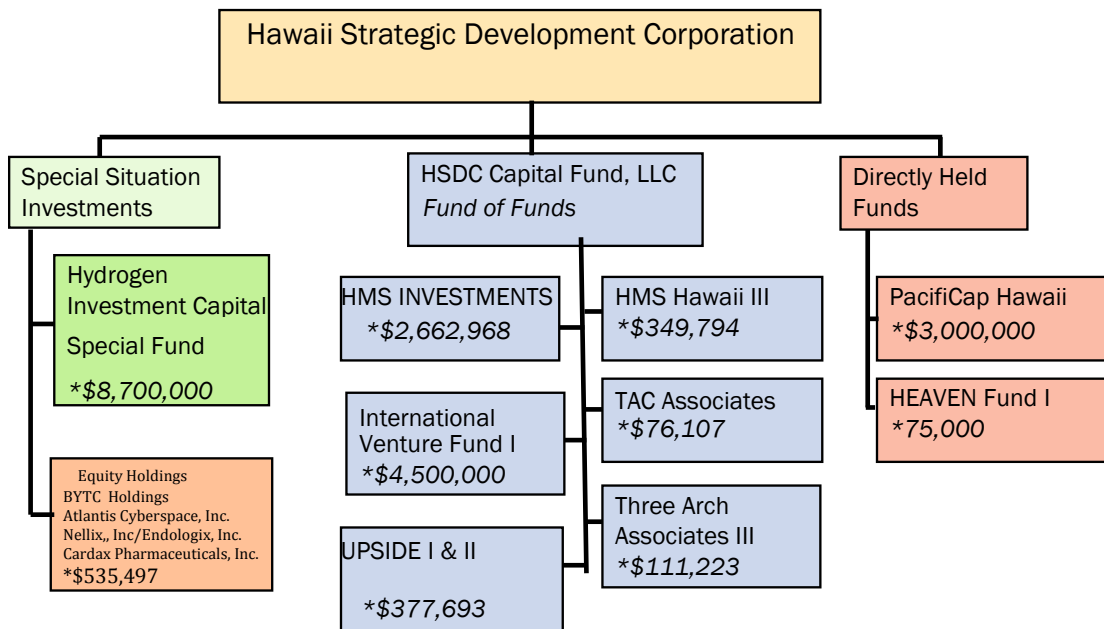
On July 2, 2012 the LAVA Program information was released and information sessions were held on Oahu, the Big Island and Maui. HSDC also sponsored an Accelerator Workshop to present information on accelerator best practices conducted by some of the leading accelerator managers in the country. As of the September 15, 2012 proposal deadline, seven proposals were received. HSDC intends to select and fund up to three accelerators by the end of January 2013.

No funds have been committed or expended from this program as of September 30, 2012.

## HSDC's Investment Portfolio

As of June 30, 2012, 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 \$3.8 million, including \$614 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, 2012



\* Contributed Capital: Total = \$20,388,282



## HSDC Investment Portfolio June 30, 2012

<u>Active Funds</u>	Pro Rata Interest	Mgt. Fee	Vintage Year	Capital Commitment	Capital Contributed	Cash and Securities Distributed	Reported Value	Distributions + Reported Value	Date of Latest Report
Heaven Fund 1 Series B & C (Rob Robinson)	100.00%	3.00%	2007	\$ 75,000	\$ 75,000	\$ -	\$ 49,685	\$ 49,685	12/31/2011
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	6/30/2012
HMS Hawaii III (Dick Grey, William Richardson)	12.10%	2.50%	2004	\$ 360,612	\$ 349,794	\$ 162,581	\$ 143,332	\$ 305,913	6/30/2012
International Venture Fund I (Debra Guerin, Kirk Westbrook)	27.01%	2.50%	2000	\$ 4,500,000	\$ 4,500,000	\$ -	\$ 1,445,359	\$ 1,445,359	12/31/2011
PacifiCap Hawaii, L. P. (Jeff Au)	99.00%	2.50%	2000	\$ 3,000,000	\$ 3,000,000	\$ 547,113	\$ 258,454	\$ 805,567	6/30/2012
TAC Associates, L.P. (Wilfred Jaeger, Mark Wan, William Harrington, Richard Lin)	0.87%	1.50%	2008	\$ 120,000	\$ 76,107	\$ 34,037	\$ 56,417	\$ 90,454	6/30/2012
Three Arch Associates III, L.P. (Wilfred Jaeger, Mark Wan, William Harrington, Richard Lin)	1.58%	1.50%	2000	\$ 160,000	\$ 111,223	\$ 203,784	\$ 173,287	\$ 377,071	6/30/2012
UPSIDE I (UH Foundation)	18.75%	1.50%	2004	\$ 117,693	\$ 117,693	\$ -	\$ 93,620	\$ 93,620	6/30/2012
UPSIDE II (UH Foundation)	50.00%	2.00%	2011	\$ 3,000,000	\$ 260,000	\$ -	\$ 222,390	\$ 222,390	6/30/2012
<b>TOTAL ACTIVE FUNDS</b>				<b>\$13,958,305</b>	<b>\$11,152,786</b>	<b>\$4,190,201</b>	<b>\$2,940,897</b>	<b>\$7,131,098</b>	

<u>Active Equity Holdings</u>	Pro Rata Interest	Mng. Fee	Vintage Year	Capital Commitment	Capital Contributed	Cash and Securities Distributed	Reported Value <sup>2</sup>	Distributions + Reported Value	Date of Latest Report
Cardax Pharmaceuticals	N/A	N/A	N/A	\$ 250,000	\$ 250,000	\$ -	\$ 250,000	\$ 250,000	8/29/2012
BYTC Corp. (fka Neugenes)	0.25%	N/A	N/A	\$ 128,401	\$ 128,401	\$ -	\$ -	\$ -	4/26/2011
Atlantis Cyberspace	0.93%	N/A	N/A	\$ 117,096	\$ 117,096	\$ -	\$ -	\$ -	5/31/2012
Nellix (dba Endologix Corp.)						\$ 12,294			n/a
SERIES B PREFERRED STOCK	0.23%			\$ 40,000	\$ 40,000		\$ -	\$ -	3/31/2010
<b>TOTAL ACTIVE EQUITY</b>				<b>\$ 535,497</b>	<b>\$ 535,497</b>	<b>\$ 12,294</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>	
<b>TOTAL ACTIVE PORTFOLIO</b>				<b>\$14,493,802</b>	<b>\$11,688,283</b>	<b>\$ 4,202,495</b>	<b>\$ 3,190,897</b>	<b>\$ 7,381,098</b>	

Below are descriptions of HSDC's active investment portfolio with the amount of capital invested in each fund as of June 30, 2012:

### **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. This fund liquidated in December 2011.

### **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. The investment portfolio consists of private equity investments in Protekai Inc. and Kuehnle Agrosystems Inc..

**UPSIDE II; \$0.26 million:** Initial investment November 2011. HSDC holds a 50% interest in this pooled capital fund. The balance is held by the the University of Hawaii Foundation. The capital fund is tasked with investing in promising start-up companies using UH developed intellectual property. The investment portfolio consists of private equity investments in Ala Wai Pharma Inc. and Kinetikor Inc.

### **Direct Equity Holdings**

HSDC directly holds share certificates, due largely to the liquidation of previous investment partnerships, in the following companies: BYTC Corp. (Neugenesis), Atlantis Cyberspace Inc., Nellix Inc., and Cardax Pharmaceuticals 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 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	6/30/2010	6/30/2011	6/30/2012
Interest Income/Partnership Distributions	\$8	\$207	\$2
Investments	\$0	\$0	\$0
Operating expenditures	\$161	\$113	\$141
HSDC Revolving Fund Balance	\$313	\$407	\$269
HSDC Capital Fund, LLC			
Uncommitted cash awaiting investment	\$817	\$832	\$614

### 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	6/30/2010	6/30/2011	6/30/2012
Hydrogen Investment Capital Special Fund	\$4,379	\$2,309	\$1,098
R&D Follow on Funding Program	\$100	Closed	--
SSBCI Venture Capital Investment Program	--	\$4,346	\$4,083

## HSDC's Board of Directors

June 30, 2012

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

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

Alan Hayashi  
Director, Public Relations & Policy  
Advocacy  
BAE Systems Support Solutions

Keiki-Pua Dancil  
Vice President, Hawaii  
Bio-Logical Capital, LLC

Jon Wallenstrom  
President  
Forest City Hawaii

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

Richard Lim  
Director  
Department of Business, Economic  
Development & Tourism

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

Blenn Fujimoto  
President and CEO  
Central Pacific HomeLoans Inc.

John DeLong  
President  
Hawaiian Cement

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