

2013 Annual Report



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This report was prepared in accordance with Hawaii Revised Statutes §211F-15, Act 170 SLH 2012 §2(e) and Act 274 SLH 2013 §2.

HRS Section §211F-15 requires HSDC to submit a complete and detailed report of its activities to the legislature on an annual basis.

Act 170 SLH 2012 §2(e) requires HSDC to submit a report on the specific annual outcome achieved through the activities and expenditures of the venture accelerator funding program (LAVA).

Act 274 SLH 2013 §2 requires HSDC to submit a report on the specific annual outcome achieved through the activities and expenditures of the HI Growth Initiative.

The annual report required by each of these statutes have been combined into this single, comprehensive report.

Message from the Chairman

I am pleased to report that HSDC has been entrusted with over \$21 million in investment capital from Federal and State sources over the past two years. In 2011, HSDC was allocated \$13 million from the U.S. Dept. of the Treasury's State Small Business Credit Initiative (SSBCI). In 2012, the State of Hawaii appropriated \$2 million to HSDC for the Launch Akamai Venture Accelerator (LAVA) Program. In 2013, \$6 million was appropriated by the State of Hawaii for HSDC to implement the HI Growth Initiative.

With the resources provided by the HI Growth Initiative, HSDC is now able to blend the Federal and State funding sources to implement a comprehensive investment program designed to address the gaps in Hawaii's funding continuum. HSDC's investment strategy will focus on entrepreneurial development, research commercialization and the creation of Hawaii based investment funds that can partner with the global investment community.

At the earliest stage of new business formation, this effort will allow HSDC to leverage the significant research activities in Hawaii to identify promising commercialization opportunities. At the growth and expansion stage of company development, HSDC will be able to develop linkages to the Hawaii Targeted Investment (HiTIP) programs of Hawaii's key institutional investors, the Employees' Retirement System and Kamehameha Schools, and partner with sources of follow-on funding.

These linkages, or network density, in Hawaii's entrepreneurial ecosystem have clearly improved due to HSDC's investment activity. Private sector investors are investing alongside HSDC in the funds and accelerators HSDC has invested its capital. HSDC partnered with Hawaii angel investors to help launch Blue Startups, Hawaii's first venture accelerator founded by Henk Rogers. HSDC is now working to complete the funding for a seed stage technology fund based on Maui founded by Arben Kryeziu and Nick Bicanic.

Private investors are also investing in the portfolio companies of these investment vehicles: Hawaii Angels, Ulupono Initiative and a HiTIP fund have invested in accelerator graduates, while HMSA and Queens Medical Systems have invested in portfolio companies of the UPSIDE Fund.

Entrepreneurs are responding to the opportunities to launch new businesses. Grassroots efforts supporting entrepreneurial development including business plan competitions, Startup Weekends, pitch events and the Founders Institute program are attracting enthusiastic participants.

The HI Growth Initiative will continue to support the development of an innovation ecosystem by working with Hawaii's entrepreneurs and investors to identify promising new sectors for investment.

I would like to thank my fellow board members for their efforts over the past year to develop this new investment strategy and for taking the time to meet with and evaluate proposals from fund managers. HSDC also welcomes a new Director to HSDC's Board of Directors, Jeffery Torres, an independent consultant.

The Board would also like to acknowledge HSDC President, Karl Fooks, and his efforts over the past several years to mobilize HSDC's investment capital. We are also pleased to welcome Lauren Primiano, Associate, as a new member of our staff. As we look ahead to 2014, HSDC is now well positioned to implement its mission of promoting economic development and diversification through a return driven investment program.

H. Brian Moore
Chairman
Board of Directors

HI Growth Initiative

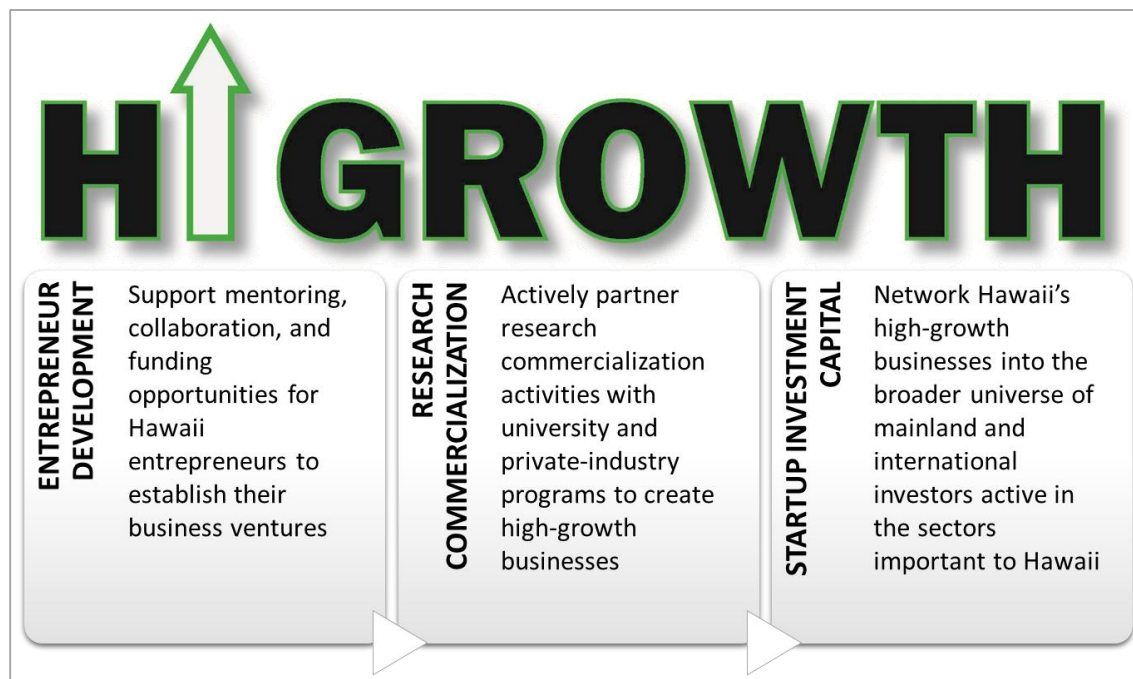
The HI Growth Initiative, Act 274 SLH 2013, was signed into law by Lieutenant Governor Shan Tsutsui on July 9, 2013. The HI Growth Initiative appropriated \$6 million to HSDC to launch a new State investment program, the HI Growth Investment Program, focused on building an innovation ecosystem that supports entrepreneurial high growth businesses and creates high wage jobs for the citizens of Hawaii.

Strong community backing for the HI Growth Initiative was responsible for the support the initiative received from the State Legislature. This was evidenced by the broad participation of many entrepreneurial businesses at the “Entrepreneurs Day at the State Capitol” in March 2013. Over 90 companies from the technology, media, food and fashion industries showcased their businesses.

HI Growth Investment Program

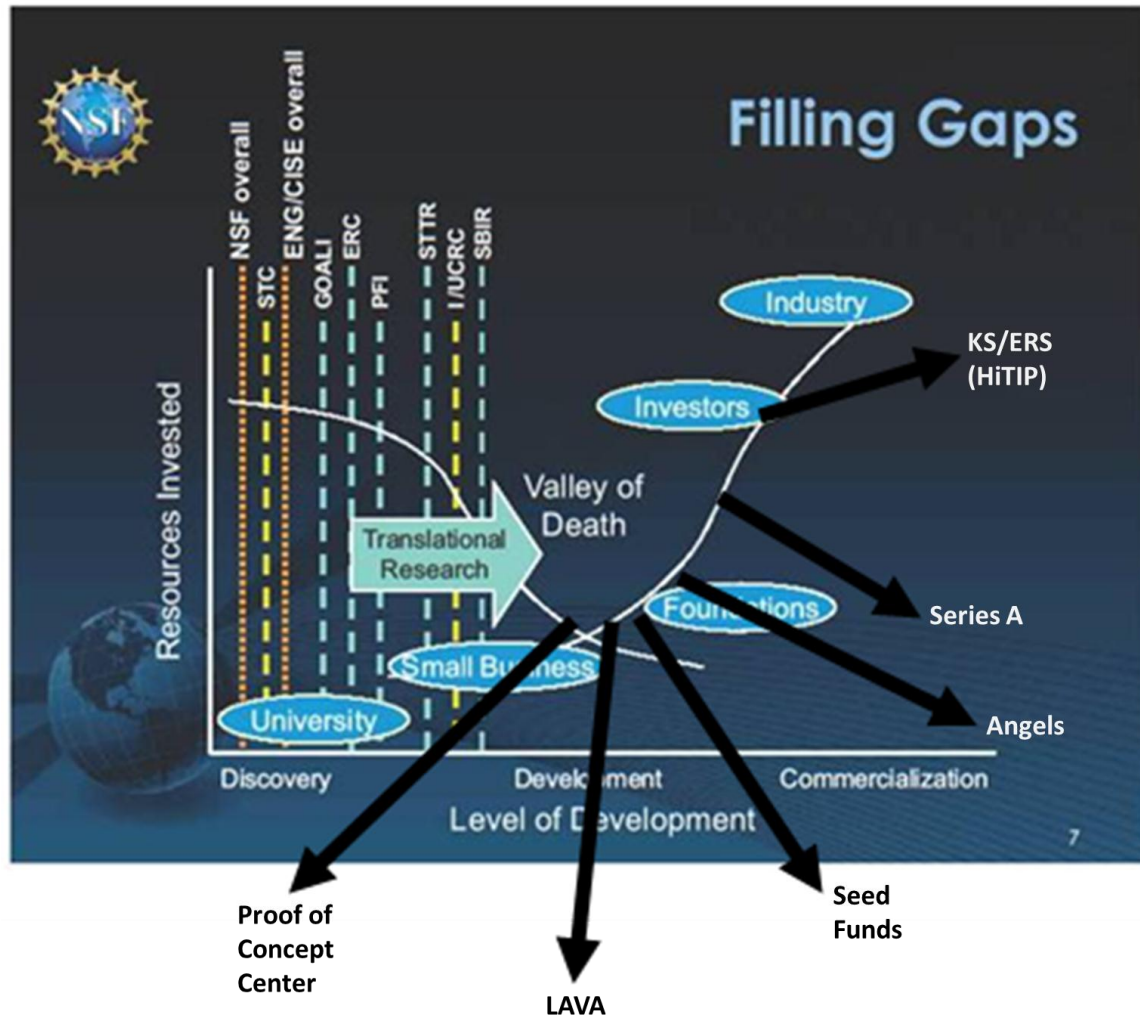
The HI Growth Investment Program blends funding from State (Launch Akamai Venture Accelerator, HI Growth Initiative) and Federal (State Small Business Credit Initiative) sources to provide over \$21 million of investment capital focused on the critical building blocks of an innovation ecosystem: **entrepreneur development, research commercialization** and the mobilization of **startup investment capital**.

Figure 1: HI Growth Investment Program Key Areas of Focus



The graphic below is borrowed from the National Science Foundation and illustrates the gaps in the funding continuum that HSDC is addressing with the HI Growth Investment Program.

Figure 2: Startup Funding Continuum



There are significant resources for the Discovery Stage provided by Federal agencies with large grant programs. However, these grants can only be used for research and cannot be used to commercialize the technology or start a business.

On the opposite end of the spectrum at the Commercialization Stage, there are investors with significant resources for companies. However, these are later stage investors who focus on companies with experienced management teams and proven revenues.

As research approaches development potential, grant funds dry up, while investor capital is sparse because of the higher-risk nature of investing in the early stages of young companies. This stage, referred to as the “Valley of Death”, represents a critical juncture in a startup company’s life where many fail to bridge the funding gap to continue on to become a successful company.

The HI Growth Investment Program aims to build investment capacity for Hawaii startup companies along the entire financing continuum – from Discovery, through the Valley of Death, to Commercialization and Business Growth – by focusing on three key areas: **entrepreneur development**, **research commercialization** and the creation of Hawaii based **startup investment capital** that can partner with the global investment community. This comprehensive and integrated approach will allow Hawaii to leverage the research funds invested in Hawaii through the University and the Dual-Use Industry, and the funds invested by our key institutional investors: the Employees’ Retirement System (ERS) and Kamehameha Schools (KS) through their respective Hawaii Targeted Investment Programs (HiTIP).

Entrepreneur Development:

The HI Growth Connect and Network (CAN) program is an important outreach effort to strengthen the connective links of the innovation ecosystem and increase the network density, or critical mass, of the ecosystem. Network density is the key success factor for a sustainable entrepreneurial high growth ecosystem.

The HI Growth CAN program will sponsor events that network entrepreneurs and investors, such as Startup Weekends and pitch competitions, that will enable network density and build a vibrant entrepreneurial ecosystem.

To catalyze a pipeline of investable companies for investors, HSDC established the Launch Akamai Venture Accelerator (LAVA) Program to provide pre-seed capital and mentors to startup entrepreneurs. The LAVA Program invested in the Blue Startups accelerator founded by Henk Rogers and HSDC is currently seeking to use LAVA funding to support an accelerator in the digital content sector as well as the research commercialization sector. Further detail on the LAVA Program is provided on page 10.

Research Commercialization:

Historically, Hawaii has been able to compete for grant funding for research activities, both via the University of Hawaii and the Dual-Use Industry. However, very little commercialization of these research efforts has materialized, and this continues to be a significant area of opportunity in Hawaii’s startup continuum.

Proof of Concept Centers are mentoring/investment programs that have proven to be effective at accelerating the commercialization of research. Research

commercialization is a key source of proprietary deal flow for Hawaii and creates opportunities for entrepreneurs and innovators to capitalize on new inventions. Most vibrant startup ecosystems have research commercialization activities as a key catalyst of their ecosystem. HSDC will prioritize the establishment of a Proof of Concept Center in the implementation of the HI Growth Investment Program.

Startup Investment Capital:

HSDC's initial efforts are focused on establishing seed funds: UPSIDE Fund and mbloom Fund I. HSDC recently provided a commitment to the Startup Capital Ventures Fund II investment opportunity that will establish a Series A investor presence in Hawaii. This will create a strong Hawaii investor community that will be able to keep many Hawaii startups based in Hawaii. This approach will allow Hawaii startup companies to grow and mature into investable companies that will be attractive investment targets for the HiTIP venture capital funds that the Employees' Retirement System and Kamehameha Schools have mobilized.

The table below summarizes the initiatives being established by HSDC under the HI Growth Investment Program.

Figure 3: HI Growth Investment Program Initiatives

ENTREPRENEUR DEVELOPMENT		RESEARCH COMMERCIALIZATION		STARTUP INVESTMENT CAPITAL	
Support mentoring, collaboration, and funding opportunities for Hawaii entrepreneurs to establish their business ventures		Actively partner research commercialization activities with university and private-industry programs to create high-growth businesses		Network Hawaii's high-growth businesses into the broader universe of mainland and international investors active in the sectors important to Hawaii	
Initiative	Description	Initiative	Description	Initiative	Description
Connect and Network (CAN)	Sponsorship for events that connect and network entrepreneurs with investors	Proof of Concept Center	Seed capital to validate commercial potential of research	UPSIDE	Seed University of Hawaii tech
Innovation Report	Inventory of Hawaii's innovation assets			mbloom	Seed software
Designer-In-Residence	Fashion business accelerator			Startup Capital Ventures	Series A tech
Blue Startups	Software business accelerator			New Fund	Healthcare or Energy
Transmedia Accelerator	Creative and digital media content accelerator				

The table below provides a breakdown of the existing and planned allocations for the HI Growth Investment Program.

Figure 4: HI Growth Investment Program Allocations as of 6/30/2013

	STATE		FEDERAL	Total HSDC Investment	Total Fund Size	Leverage on State Funds
	LAVA	HI Growth	SSBCI			
Beginning Balance	\$ 2,000,000	\$ 6,000,000	\$ 13,168,350	\$ 21,168,350		
Existing Allocations:						
Blue Startups/Blue Ventures	\$ 600,000		\$ 500,000	\$ 1,100,000	\$ 1,030,000 ^a	1.06 : 1
UPSIDE Fund			\$ 3,000,000	\$ 3,000,000	\$ 6,000,000	
mbloom Fund I		\$ 2,000,000*	\$ 3,000,000*	\$ 5,000,000*	\$ 10,000,000 ^b	4 : 1
Startup Capital Ventures Fund II		\$ 500,000*	\$ 3,000,000*	\$ 3,500,000*	\$ 20,000,000 ^b	39 : 1
Innovation Report		\$ 150,000*		\$ 150,000*		12.5 : 1 ^c
Connect and Network program		\$ 100,000*		\$ 100,000*		1 : 1 ^d
Current Investment Initiatives:						
Proof of Concept Center	\$ 600,000	\$ 1,000,000		\$ 1,600,000		
Designer-in-Residence program		\$ 50,000		\$ 50,000		
New Investment Initiatives:						
New Fund		\$ 2,000,000	\$ 3,000,000	\$ 5,000,000		
New Accelerator	\$ 600,000		\$ 500,000	\$ 1,100,000		
Admin/Legal expenses	Expended		\$ 2,206	\$ 2,206		
	Reserved	\$ 200,000	\$ 200,000	\$ 166,144	\$ 566,144	
Ending Balance	\$ 0	\$ 0	\$ 0	\$ 0		

* Committed after 6/30/2013

a. Excludes LAVA funds

b. Committed amount – fund has not yet closed

c. \$10,000 (out of \$135,000) committed by HSDC to Hawaii Business Roundtable Innovation Report

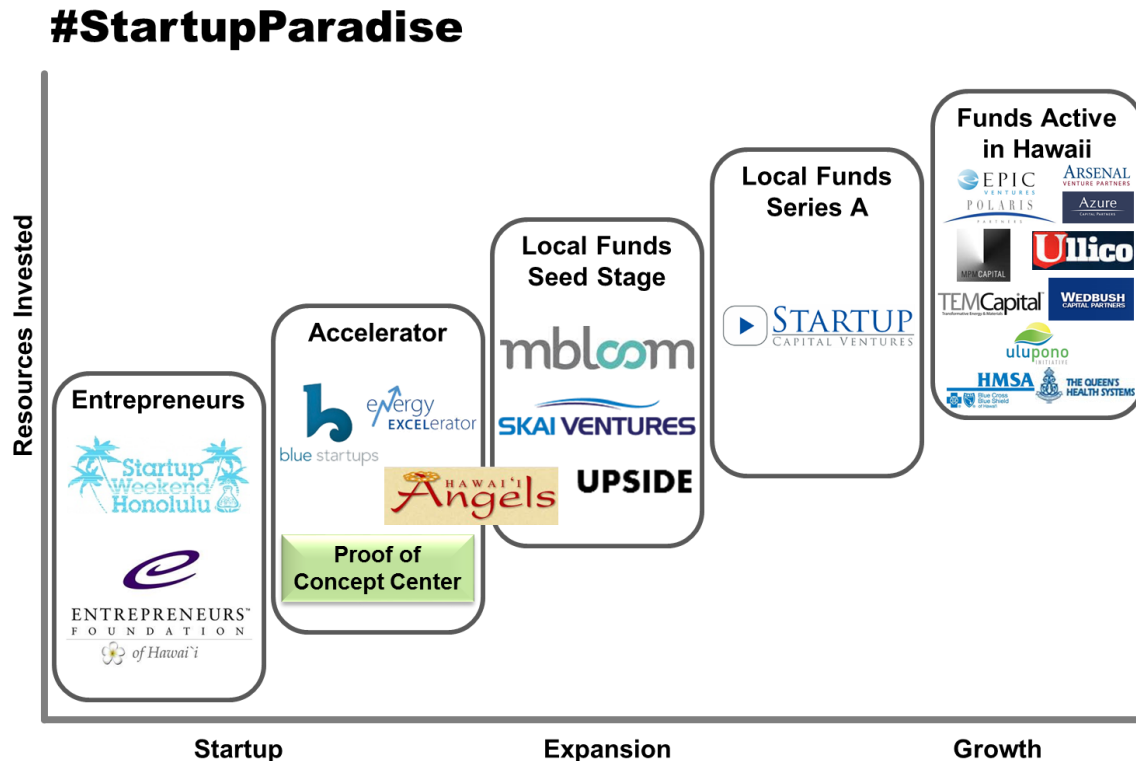
d. Estimated leverage

Network density in Hawaii’s entrepreneurial ecosystem has clearly improved due to HSDC’s recent investment activity. Private sector investors are prepared to invest alongside HSDC in the funds and accelerators to which HSDC is committing. Private investors are also investing in the portfolio companies of these investment vehicles: Hawaii Angels, Ulupono Initiative and a HiTIP fund have invested in accelerator graduates, while HMSA and Queens have invested in portfolio companies of the UPSIDE Fund.

Private co-working spaces have been established and private sector incubators are planned. Grassroots efforts supporting entrepreneurial development are taking place including UH business plan competitions, Startup Weekends, pitch events and the Founders Institute program.

To capture the vibrancy of Hawaii’s startup activity, the community has adopted “Startup Paradise” to brand Hawaii as an innovation hub. The graphic below illustrates how some of the different entities in the Startup Paradise community are networked and working collaboratively to support one another’s efforts.

Figure 5: Startup Paradise



Startup Weekend events and pitch events like the Pupus and Pitches events sponsored by the Entrepreneurs Foundation of Hawaii help to bring entrepreneurs out into the community to find collaborators for their projects, form a business venture and seek investor capital.

If a business is formed, the founders will be able to enter an accelerator program like the Blue Startups or the Energy Exceleator to gain access to mentors, collaborators and starter funding to get their business launched. The Hawaii Angels have been key partners for this effort.

Successful companies graduating from these accelerator programs will be able to attract seed investment from angel investors and seed funds like the mbloom Fund or the UPSIDE Fund.

The availability of professional investors at this early stage is a critical component of the entrepreneurial ecosystem that will allow these companies to choose to stay in Hawaii to grow their businesses as they are not forced to move to regions where this financing is available.

HI Growth Financial Statement

Figure 6: HI Growth Financial Statement

FY Ending (thousands)	9/30/2013*
Beginning Balance	\$0
General Fund Transfer In	\$6,000
Ending Balance	\$6,000

*The General Fund transfer of HI Growth funds was effective post-FY 13, so the amounts in this table are reported as of the first quarter of FY 14. These funds have been deposited into HSDC's Revolving Fund.

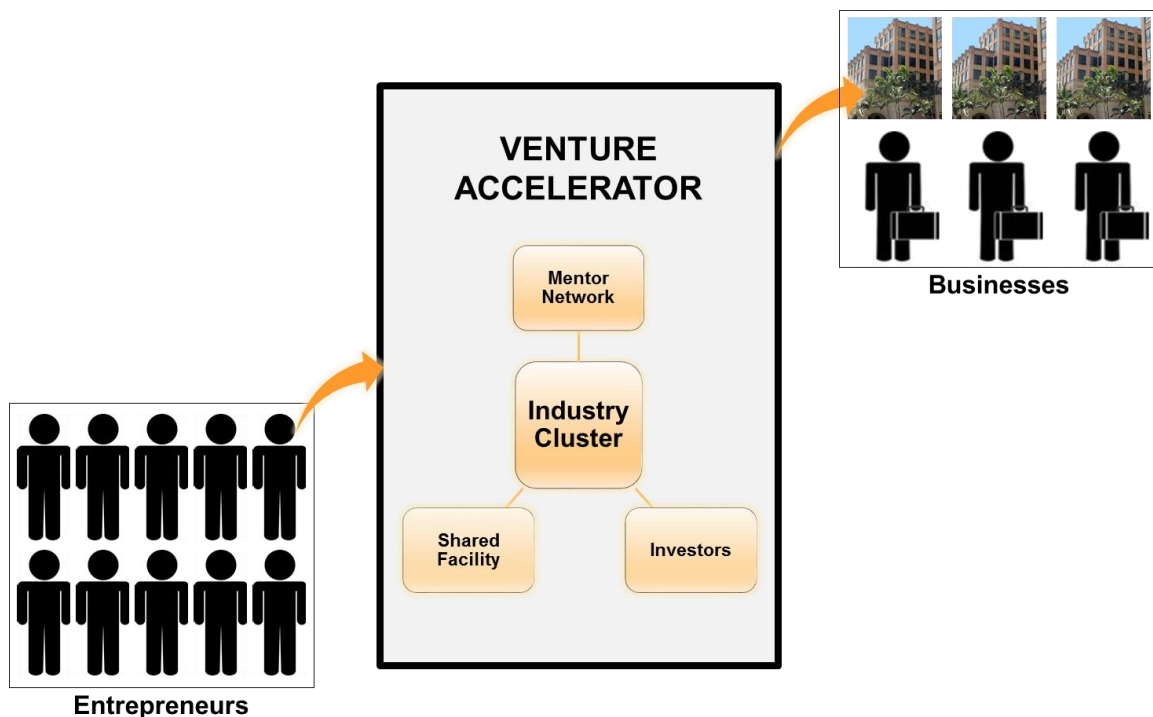
LAVA Program

On June 27, 2012 Governor Abercrombie signed into law Act 170 SLH 2012, passed by the Hawaii State Legislature as HB 2319. Act 170 SLH 2012 enabled the creation of the Launch Akamai Venture Accelerator (LAVA) Program.

LAVA is a \$2 million venture accelerator program with the purpose of promoting the establishment of venture accelerators in Hawaii. Venture accelerators provide entrepreneurs with a structured framework to build and launch their businesses by providing promising entrepreneurs with mentors, seed capital, supporting resources and exposure to follow-on investment capital for future growth and expansion.

Venture accelerators promote collaboration and community building by providing a facility for up to ten companies at a time to work side-by-side building their businesses. By supporting the infrastructure that provides entrepreneurs with the necessary 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.

Figure 7: Venture Accelerator Model



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. At the September 15, 2012 proposal deadline, seven proposals were received.

At its board meeting on November 7, 2012, the HSDC Board of Directors selected three applicants for funding under the LAVA Program. The LAVA funding allocations were contingent upon final due diligence, documentation and the commitment of private matching funds. Blue Startups successfully raised their matching funds and received funding from the LAVA Program. Nalukai Foundation and Kinetiq Labs did not meet the deadlines for raising their match and did not receive funding from the LAVA Program.

LAVA provided \$200,000 of funding to the Blue Startups venture accelerator, founded by Henk Rogers, one of Hawaii's successful entrepreneurs. In addition, \$500,000 from SSBCI funds was allocated to Blue Ventures LLLP, the venture fund established to invest exclusively in Blue Startups cohort companies. Both the \$200,000 and the \$500,000 investments were matched by private sources. Please see page 15 for more information on the SSBCI program.

Blue Startups successfully graduated its first cohort of eight companies in May 2013 and held investor Demo Days in Honolulu and Silicon Valley. A summary of Blue Startups' first cohort is provided below.

Blue Startups

First Cohort Applicants:

Blue Startups received 107 applications: 40 Hawaii applicants and 67 Non-Hawaii applicants. Eight applicants were selected and enrolled in Blue Startups' inaugural class: six Hawaii applicants and two Non-Hawaii applicants.

The graphs below illustrate the industry breakdown of the applicant pool and the accepted applicants. Applications from entrepreneurs in the software sector dominated the applicant pool.

Figure 8: Applicant Pool for Blue Startups' First Cohort by Industry

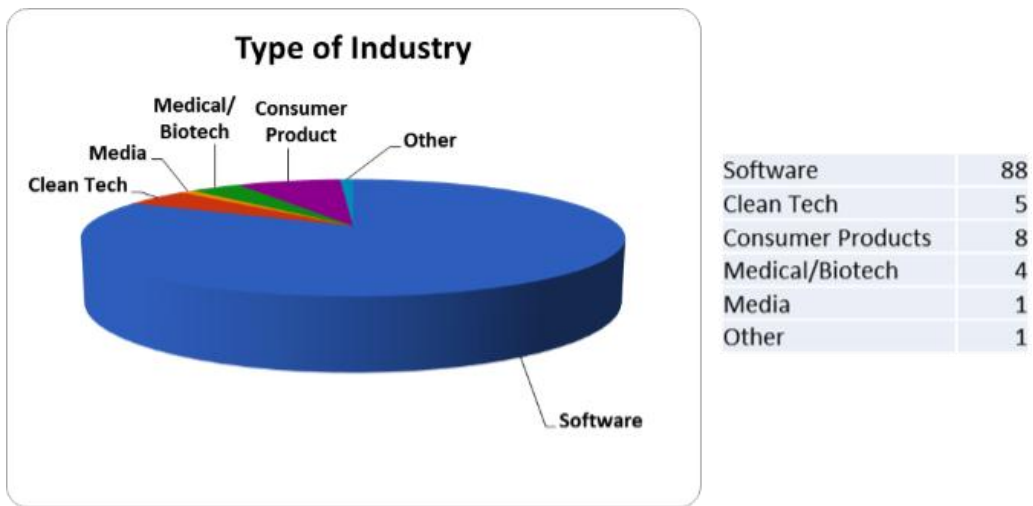
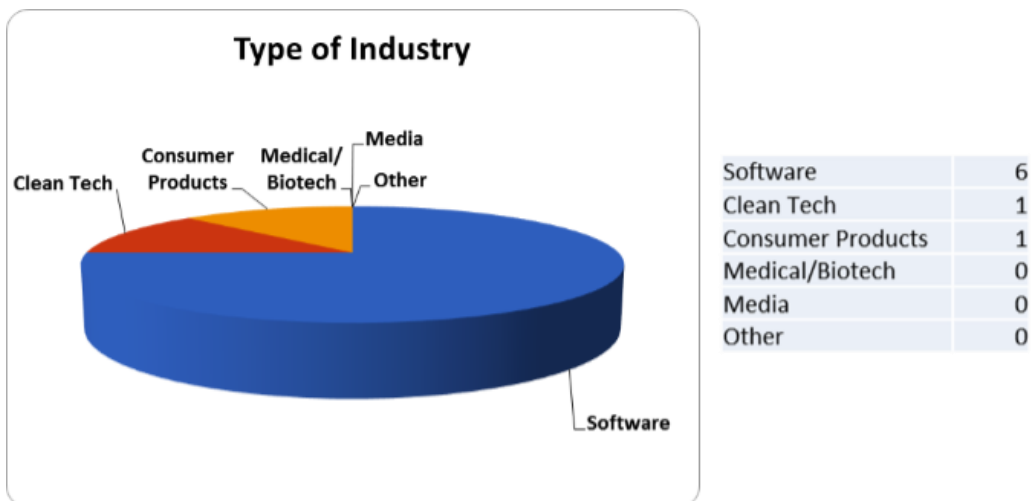


Figure 9: Blue Startups' First Cohort by Industry



Name and Company Description of First Cohort:

SURROUNDS ME automates social media marketing, turning loyal customers into advocates and content creators for businesses.

TEALET is a direct-from-grower retail and wholesale marketplace that connects tea lovers with teas from around the world.

MINDED is an app that alleviates the stress of gift giving by pairing reminders for special occasions with tailored gift suggestions.

TOW CHOICE is a mobile instant bidding platform to eliminate the costs and inefficiencies of roadside assistance dispatch centers for the \$5 billion U.S. towing industry.

VOLTA provides electric vehicle charging stations to major metropolitan areas and commercial sites.

WICKED LOOT is a game development studio that is leading the charge for user generated content.

PHARMLY focuses on combating drug shortages within the pharmaceutical industry through a reverse bidding platform.

FLO WATER provides advanced reusable water bottle refill stations to major educational institutions and retail locations.

Demo Day Statistics:

A key feature of the venture accelerator model is the Demo Day, or the investor pitch event that allows graduates of the accelerator program to meet with prospective investors. Blue Startups held two Demo Days, one in Honolulu and one in Mountain View, CA at the 500 Startups facility.

Figure 10: Blue Startups' Inaugural Demo Day Statistics

	Honolulu 5/31/2013	Mountain View 6/11/2013
Non-Hawaii Investors	6	25
Hawaii-Based Investors	17	2
Mentors	23	8
Community Members (i.e., Entrepreneurs, Business Community)	153	54
Total Attending	199	89

Follow-On Funding:

VOLTA and FLO WATER each raised around \$1 million of follow-on investment since graduating from Blue Startups. VOLTA received \$175,000 from Ulupono Initiative. FLO WATER's major investors include investors from Tech Coast Angels and Hawaii Angels.

LAVA Financial Statement

Figure 11: LAVA Financial Statement

FY Ending (thousands)	6/30/2013
Beginning Balance	\$0
General Fund Transfer In	\$2,000
Blue Startups Investment	(\$200)
Ending Balance	\$1,800
Remaining Funds Obligated to Blue Startups	(\$400)
Ending Balance Less Remaining Funds Obligated	\$1,400

State Small Business Credit Initiative

In May 2011, HSDC was awarded a \$13 million allocation from the U.S. Department of Treasury's State Small Business Credit Initiative (SSBCI) for a venture capital fund of funds investment program. HSDC uses these funds in conjunction with its funding from the State for the HI Growth Investment Program.

The SSBCI program disburses funds in three tranches. HSDC received its first tranche of \$4.3 million in June 2011. HSDC applied and was approved for its second tranche of \$4.3 million, and received the funds in November 2013.

In 2011, HSDC committed \$3 million of SSBCI funding to the UPSIDE Fund, a seed-stage investment fund that invests in business commercializing technology developed at the University of Hawaii. This investment was matched by \$3 million from the University of Hawaii Foundation. UPSIDE has so far invested in two companies which have raised \$550,000 in matching private capital.

In March 2013, HSDC committed \$500,000 of SSBCI funding to Blue Ventures, a seed investment fund that invests exclusively in Blue Startups portfolio companies, which was matched with \$530,000 in private capital. Additional follow-on capital of over \$2 million was raised by portfolio companies after graduating from Blue Startups. Further detail on the LAVA Program and Blue Startups is provided on page 10.

SSBCI Financial Statement

Figure 12: SSBCI Financial Statement

FY Ending (thousands)	6/30/2011	6/30/2012	6/30/2013
Beginning Balance	\$0	\$4,346	\$4,083
Transfer In	\$4,346	\$0	\$0
Interest Income	\$0	\$0	\$2
Admin/Legal Expenses	\$0	(\$2)	\$0
Capital Call for UPSIDE Fund	\$0	(\$260)	(\$165)
Capital Call for Kinetiq	\$0	\$0	(\$150)*
Capital Call for Blue Ventures	\$0	\$0	(\$150)
Ending Balance	\$4,346	\$4,083	\$3,621
Remaining Funds Obligated to UPSIDE	\$0	(\$2,740)	(\$2,575)
Remaining Funds Obligated to Blue Ventures	\$0	\$0	(\$350)
Ending Balance Less Remaining Funds Obligated	\$4,346	\$1,344	\$696

*Investment was returned due to the anticipated investment not being consummated. Funds were re-deposited in the subsequent fiscal year (FY 14).

HSDC's Investment Portfolio

As of June 30, 2013, HSDC's investment portfolio totaled \$12.2 million in invested capital. The portfolio has returned \$4.5 million as of June 30, 2013 and the current carrying value of the investments is \$4.6 million, which includes \$1.4 million 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.

Figure 13: HSDC Investment Portfolio FY 13

HSDC Investment Portfolio
June 30, 2013

Active Funds	Pro Rata Interest	Mgt. Fee	Vintage Year	Capital Commitment	Capital Contributed	Cash and Securities Distributed	Reported Value ²	Distributions + Reported Value	Investment Multiple	Date of Latest Report
HMS Investments										
HMS Hawaii Management III, LLC (Bill Richardson)	80.00%	3.50%	1995/2003	\$ 2,625,000	\$ 2,662,968	\$ 3,242,685	\$ 498,354	\$ 3,741,039	1.4	6/30/2012
International Venture Fund I, L.P.										
International Venture Fund I, LLC (Debra R. Guerin-Bereshi)	27.01%	2.50%	2000	\$ 4,500,000	\$ 4,500,000	\$ -	\$ 1,441,649	\$ 1,441,649	0.3	6/30/2013
PacifiCap Hawaii, L.P.										
PacifiCap Group, LLC (Jeffrey K.D. Au)	99.00%	2.50%	2000	\$ 3,000,000	\$ 3,000,000	\$ 547,113	\$ 257,195	\$ 804,308	0.3	6/30/2013
Three Arch Associates III, L.P.										
Three Arch Management III, L.L.C. (Wilfred E. Jaeger, Mark A. Wan, William T. Harrington, Richard Y. Lin)	1.58%	1.50%	2000	\$ 160,000	\$ 111,223	\$ 203,784	\$ 71,786	\$ 275,570	2.5	6/30/2013
HMS Hawaii III, LP										
HMS Hawaii Management III, LLC (Bill Richardson)	12.10%	2.50%	2004	\$ 360,612	\$ 349,794	\$ 162,581	\$ 143,332	\$ 305,913	0.9	6/30/2012
UPSIDE I	18.75%									
University of Hawai'i Foundation (Elizabeth Hokada, Jim Lally, Scott Wo)	23.84%	1.50%	2004	\$ 117,693	\$ 117,693	\$ -	\$ 87,914	\$ 87,914	0.7	6/30/2013
Heaven Fund I, LLC										
Kolohala Holdings LLP (Robert Robinson)	100.00%	3.00%	2007	\$ 75,000	\$ 75,000	\$ -	\$ 62,191	\$ 62,191	0.8	6/30/2013
TAC Associates, L.P.										
TAC Management, L.L.C. (Wilfred E. Jaeger, William T. Harrington, Mark A. Wan, Richard Y. Lin)	0.87%	1.50%	2008	\$ 120,000	\$ 76,107	\$ 46,554	\$ 31,687	\$ 78,241	1.0	6/30/2013
UPSIDE II										
University of Hawai'i Foundation (Elizabeth Hokada, Jim Lally, Scott Wo)	50.00%	2.00%	2011	\$ 3,000,000	\$ 425,000	\$ -	\$ 326,573	\$ 326,573	0.8	6/30/2013
Blue Ventures, LLLP										
Blue Startups, LLC (Chenoa Farnsworth)	48.54%	0.00%	2013	\$ 700,000	\$ 350,000	\$ -	\$ 329,858	\$ 329,858	0.9	6/30/2013
TOTAL ACTIVE FUNDS				\$14,658,305	\$11,667,786	\$4,202,718	\$3,250,538	\$7,453,256		

Active Equity Holdings	Pro Rata Interest	Mng. Fee	Vintage Year	Capital Commitment	Capital Contributed	Cash and Securities Distributed	Reported Value ²	Distributions + Reported Value	Investment Multiple	Date of Latest Report
Cardax Pharmaceuticals	N/A	N/A	N/A	\$ 250,000	\$ 250,000	\$ 287,252	\$ -	\$ 287,252		6/30/2013
BYTC Corp. (fka Neugenesi³)	0.25%	N/A	N/A	\$ 128,401	\$ 128,401	\$ -	\$ -	\$ -		4/26/2011
Atlantis Cyberspace³	0.93%	N/A	N/A	\$ 117,096	\$ 117,096	\$ -	\$ -	\$ -		5/31/2012
Nellix (dba Endologix Corp.)⁴	0.23%			\$ 40,000	\$ 40,000	\$ 12,294	\$ -	\$ 12,294		3/31/2010
SERIES B PREFERRED STOCK				\$ -	\$ -	\$ -	\$ -	\$ -		
TOTAL ACTIVE EQUITY				\$ 535,497	\$ 535,497	\$ 299,546	\$ -	\$ 299,546		

TOTAL ACTIVE PORTFOLIO				\$ 15,193,802	\$ 12,203,283	\$ 4,502,264	\$ 3,250,538	\$ 7,752,802		
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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

Below are descriptions of HSDC's active investment portfolio with the amount of capital HSDC has invested in each fund as of June 30, 2013:

Hawaii-Based Venture Capital Funds

HMS Investments; \$2.66 million capital contributed:

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.

PacifiCap Hawaii, L.P.; \$3.0 million capital contributed:

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.

HMS Hawaii III; \$0.35 million capital contributed:

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, InMobi, and Firetide.

Regional Venture Capital Funds

International Venture Fund I; \$4.5 million capital contributed:

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.

Three Arch Associates III; \$ 0.11 million capital contributed:

Received a 1.58% limited partner interest in this California based venture capital partnership as a distribution from the dissolution of Lava Ventures IV.

TAC Associates; \$ 0.08 million capital contributed:

Received a 0.87% limited partner interest in this California based venture capital partnership as a distribution from the dissolution of Lava Ventures IV.

Funds to Support Hawaii Angels

Heaven Fund I; \$0.08 million capital contributed:

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.

Blue Ventures LLLP; \$0.35 million capital contributed:

Initial investment in March 2013. HSDC holds a 49% limited partner interest in this Hawaii based venture capital partnership. Co-investors in the fund are Hawaii angel investors. The fund invests exclusively in the portfolio companies of the Blue Startups venture accelerator.

Funds to Support Technology Transfer from the University of Hawaii

UPSIDE I; \$0.12 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; \$0.43 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 Kineticor Inc.

Direct Equity Holdings

HSDC directly holds equity interests, due largely to the liquidation of previous investment partnerships, in the following companies: BYTC Corp. (Neugenesis) and Atlantis Cyberspace Inc.

Administrative Agent State Investment Programs

The Hydrogen Investment Capital Special Fund; \$4.9 million equity program:

Despite its authorization in 2006, the investment program did not begin until December 2008. HSDC was 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 (\$1,681,054):

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

Figure 14: Revolving Fund Financial Report

FY Ending (thousands)	6/30/2011	6/30/2012	6/30/2013
Beginning Balance	\$313	\$407	\$269
Interest Income/Partnership Distributions	\$207	\$2	\$1
Investments	\$0	\$0	(\$400)*
Operating Expenditures	(\$113)	(\$141)	(\$189)
General Fund Transfer In	\$0	\$0	\$2,000
HSDC Revolving Fund Balance	\$407	\$269	\$1,681
HSDC Capital Fund, LLC			
Cash awaiting investment	\$832	\$614	\$1,370

*\$200,000 was returned due to an anticipated investment not being consummated. Funds were re-deposited in the subsequent fiscal year.

Special Funds (\$159,052):

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. In July 2012, Act 240, SLH 2012 transferred expenditure authority of the Hydrogen Investment Capital Special Fund to HSDC.

HSDC was allocated \$13,168,350 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.

Figure 15: Special Fund Financial Report

FY Ending (thousands)	6/30/2011	6/30/2012	6/30/2013
Hydrogen Investment Capital Special Fund	\$2,309	\$1,098	\$159
SSBCI Venture Capital Investment Program	\$4,346	\$4,083	\$3,621

HSDC's Board of Directors

June 30, 2012

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Senior Vice President, Real Estate
Investment
Pacific Guardian Life Insurance Co.

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Jeff Torres (as of 7/1/2013)
Independent Consultant

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Hawaii Medical Service Association

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Richard Lim
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