



# 2017 Annual Report





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This report was prepared in accordance with Hawaii Revised Statutes §211F-15, §211F-15.5 and Act 170 SLH 2012 §2(e).

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

HRS Section §211F-15.5 requires HSDC to submit a report on the specific annual outcome achieved through the activities and expenditures of the HI Growth Initiative.

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).

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



## Message from the Chairman

As the incoming Chairman of the Board of Directors, I would like to thank H. Brian Moore for his 8 years of service on the board of HSDC and for his leadership as Chairman of the Board for 7 of those years. This year's annual report highlights the many successes achieved by HSDC during his tenure.

If Hawaii is to remain competitive in the global economy we need to provide our entrepreneurs with the resources to build viable global businesses here at home. We have the entrepreneurial talent here in Hawaii. HSDC's mission is to mobilize the mentor and investment networks that will allow them to survive and thrive here in Hawaii.

HSDC can be proud of the early role we played in catalyzing the establishment of a vibrant entrepreneurial ecosystem. It is time for HSDC to refocus on our role as the *strategic development* entity for the state. Our mission is to look ahead to other sectors of the economy that can benefit from a public-private investment model and to get those sectors growing.

In closing, I would like to extend an Aloha and farewell to Sara Lin, HSDC Associate. During her two and half years at HSDC she helped to communicate the development of Hawaii's entrepreneurial ecosystem, not the least through her monthly column in the *Honolulu Star-Advertiser*. We have reprised a number of those articles in this year's report.

Michael O'Malley, Chairman, Board of Directors



## HI Growth Initiative

A Hawaii-born clean energy and media startup raises a \$40 million investment round. A Honolulu-based medical technology startup successfully commercializes University of Hawaii research. A Maui-based food entrepreneur expands her market to Whole Foods California and receives venture capital investment. And a Kama'aina who successfully built one tech company moves home to build her second.

All of these stories feature entrepreneurs who have experienced and benefitted from the entrepreneurial ecosystem that has sprouted up in Hawaii over the last five years. The Hawaii Strategic Development Corporation's HI Growth Initiative played a critical role in laying the foundation for this community that welcomes innovation and supports entrepreneurs.



Local entrepreneurs and legislative "sharks" at the inaugural 2016 "Pitch the Capitol" event.

HSDC's mission is to develop long-term economic growth opportunities for Hawaii's economy, diversifying the economy by attracting private capital investment in new industries and new business sectors that create new job opportunities for Hawaii residents. We focus on diversification because we are statutorily prohibited from supporting businesses in retail, construction or tourism, currently the main drivers of our economy.

Because Hawaii relies so heavily on the Tourism Sector and the Military Sector for economic growth there are no other significant tradeable industry clusters. HSDC found that

creating investment funds willing to invest in local startup companies was only part of the necessary solution. A critical piece to growing new economic sectors is a strong entrepreneurial culture that encourages risk taking, startup values and other entrepreneurial mindsets.

Launched in 2012, the HI Growth Initiative outlined a strategy to stimulate Hawaii's innovation economy by seeding private sector efforts to support entrepreneur development, create access to startup capital and support research commercialization through a single comprehensive program. At the time of HI Growth's launch, there were no accelerators, no local investment funds providing capital to local startups and virtually no organized efforts to commercialize research at the University of Hawaii.

After five years of working with our leading entrepreneurs, engaging with our investment and business community and collaborating with the university there is no doubt that the HI Growth Initiative successfully catalyzed a vibrant private sector led entrepreneurial ecosystem to create the foundation for a viable economic diversification effort.



Dawn Anderson, graduate of Maui Food Innovation Center's accelerator program, received venture investment in her energy bar business.

Hawaii's entrepreneurial community today includes an active university commercialization effort, six accelerators, seven active Hawaii-based investment funds and a full calendar of international conferences and networking events showcasing local entrepreneurs. Industry sectors supported include information technology, clean tech, bio tech, creative media, and value-added foods. A continuum of financing from pre-seed through to Series A has been established. This funding environment has attracted the participation of angel, institutional, corporate and out of state VC investors. HSDC's fund of funds portfolio includes 65 active startups which have raised \$136 million in follow-on

funding, leading to a 12X leverage on each dollar invested by the state — and HSDC is only at the halfway mark of its funding deployment.

Just as important, we now see various community stakeholders stepping up to take ownership of the individual efforts launched by the HI Growth Initiative. The Hawaii Technology Development Corporation received an infusion from the State Legislature to continue the grant program to support accelerators' operating costs. The individual accelerator programs are cementing strategic partnerships with groups in and out of state that will support their continued activities. The investment funds launched by the HI Growth Initiative are beginning to raise their next rounds of funding from private investors. At the same time, the Hawaii State Employees' Retirement System recently committed to investing \$35 million in venture funds targeting later-stage startups in Hawaii — a strong endorsement of Hawaii's entrepreneurial ecosystem. Lastly, the University of Hawaii has taken major strides in commercializing its research, most recently by obtaining statutory authority to create equity funds to invest in innovations coming out of the university.

Now that Hawaii's entrepreneurial ecosystem has been firmly established, HSDC is turning its strategic focus away from ecosystem building to targeting other industry sectors that can benefit from plugging into this entrepreneurial culture. By linking other emerging Hawaii sectors and the entrepreneurial community, new high wage job opportunities will be generated for Hawaii's people.

As a way of closing the chapter on the HI Growth Initiative, the following collection of articles that ran in the *Honolulu Star-Advertiser* highlight the entrepreneurial successes, in a variety of industry verticals, made possible by HSDC and the HI Growth Initiative's early investments in Hawaii's entrepreneurial ecosystem.



Tina Fitch, pictured with her cofounders, who successfully launched and exited a tech company, returned home to Hawaii to start her second venture.

HI Growth Initiative Investment Allocations as of June 30, 2017

**HSDC Obligated and Proposed Use of Funds**

June 30, 2017

	State		Federal	Private Capital	Total Fund Size
	LAVA	HI Growth	SSBCI		
<b>Beginning Balance</b>	<b>\$2,000,000</b>	<b>\$6,000,000</b>	<b>\$13,227,911</b>	<b>\$33,273,980</b>	
<b>Existing Obligations:</b>					
Blue Startups	\$1,100,000			\$1,100,000	N/A
Blue Ventures			\$520,000	\$520,000	\$1,040,000
Blue Ventures II		\$120,000	\$650,000	\$770,000	\$1,540,000
Reef Fund I		\$1,116,337	\$1,696,748	\$1,676,837	\$4,489,922
Reef Fund II		\$894,687	\$1,362,813	TBD	\$2,257,500
Startup Capital		\$1,000,000	\$3,500,000	\$23,357,143	\$27,857,143
GVS Transmedia Accelerator	\$700,000			\$700,000	N/A
GTA Development Fund		\$82,500	\$417,500	\$500,000	\$1,000,000
GTA Development Follow-on Fund		\$1,000,000	\$500,000	TBD	\$1,500,000
GVS Connect		\$300,000		TBD	N/A
UPSIDE			\$3,000,000	\$3,000,000	\$6,000,000
Energy Exceleator	\$150,000			\$150,000	N/A
Energy Exceleator Follow-on Fund		\$150,000	\$1,350,000	\$1,500,000	\$3,000,000
CAN Program		\$119,595		TBD	N/A
CAN Program II		\$211,000		TBD	N/A
CAN Program III		\$250,000		TBD	N/A
<b>Total Obligated Funds</b>	<b>\$1,950,000</b>	<b>\$5,244,119</b>	<b>\$12,997,061</b>	<b>\$33,273,980</b>	<b>\$48,684,565</b>
<b>Remaining Unobligated Funds</b>	<b>\$50,000</b>	<b>\$755,881</b>	<b>\$230,850</b>		
<b>Obligations In Progress:</b>					
Admin	Expended (as of 3/31/2017)	\$31,939	\$64,585	\$137,939	
	Reserved	\$18,061	\$85,415	\$92,911	
<b>Balance</b>	<b>\$0</b>	<b>\$605,881</b>	<b>\$0</b>		

# Financial Report

## HSDC Revolving Fund Annual Statement

HSDC funds its operations and investments through the HSDC Revolving Fund and from returns on investment generated through the HSDC Capital Fund, LLC. The annual statement includes the amounts detailed in the LAVA and HI Growth Annual Statements.

<b>FY Ending (thousands)</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Beginning Balance	\$6,884	\$5,302
General Fund Transfer in	\$0	\$0
Revenues	\$255	\$58
Investments	(\$1,540)	(\$1,477)
Administrative Expenses	(\$294)	(\$325)
Ending Balance	\$5,306	\$3,558
Remaining Funds Obligated and Encumbered	(\$3,547)	(2,216)
Ending Balance Less Remaining Funds Obligated and Encumbered	\$1,759	\$1,342

## HI Growth Initiative Annual Statement

Act 274 SLH 2013 established the HI Growth Initiative and appropriated \$6 million to HSDC.

<b>FY Ending (thousands)</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Beginning Balance	\$4,779	\$3,718
General Fund Transfer In	\$0	\$0
Investments	(\$1,040)	(\$1,027)
Administrative Expenses	(\$21)	(\$16)
Ending Balance	\$3,718	\$2,675
Remaining Funds Obligated and Encumbered	(\$2,993)	(\$1,984)
Ending Balance Less Remaining Funds Obligated and Encumbered	\$725	\$691

## LAVA Annual Statement

Act 170 SLH 2012 established the Launch Akamai Venture Accelerator (LAVA) Program and appropriated \$2 million to HSDC.

<b>FY Ending (thousands)</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Beginning Balance	\$1,069	\$568
General Fund Transfer In	\$0	\$0
Investments	(\$500)	(\$450)
Administrative Expenses	(\$1)	\$0
Ending Balance	\$568	\$118
Remaining Funds Obligated and Encumbered	(\$550)	(\$100)
Ending Balance Less Remaining Funds Obligated and Encumbered	\$18	\$18

### **State Small Business Credit Initiative Annual Statement**

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.

<b>FY Ending (thousands)</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Beginning Balance	\$10,080	\$8,146
Transfer In From U.S. Department of the Treasury		\$59
Revenues	\$58	\$61
Investments	(\$1,969)	(\$1,534)
Administrative Expenses	(\$24)	(\$23)
Ending Balance	\$8,146	\$6,709
Remaining Funds Obligated and Encumbered	(\$7,925)	(\$6,433)
Ending Balance Less Remaining Funds Obligated and Encumbered	\$221	\$266

### **Hydrogen Capital Investment Special Fund Annual Statement**

Act 240, SLH 2006 established the Hydrogen Investment Capital Special Fund within HSDC. \$8.7 million was expended by the Department of Business, Economic Development and Tourism to provide grants to hydrogen related projects and to invest in the Kolohala Hydrogen Fund.

<b>FY Ending (thousands)</b>	<b>6/30/2016</b>	<b>6/30/2017</b>
Beginning Balance	\$141	\$20
General Fund Transfer In	\$0	\$0
Revenues	\$0	\$0
Investments	(\$122)	\$0
Administrative Expenses	(\$0)	(\$1)
Ending Balance	\$20	\$19
Remaining Funds Obligated and Encumbered	\$0	\$0
Ending Balance Less Remaining Funds Obligated and Encumbered	\$20	\$19

**HSDC Capital Fund, LLC Financial Statement**

HSDC invests via a fund of funds entity, HSDC Capital Fund, LLC. The financial statements for HSDC Capital Fund, LLC for the years ending December 31, 2015 and December 31, 2016 are presented in Attachment 2.

# HSDC's Board of Directors

July 1, 2017

Michael O'Malley, Chairman  
Partner  
Goodsill, Anderson, Quinn & Stifel

Keiki-Pua Dancil, Vice Chairman  
Director, Business Strategy Development  
Hawaiian Electric Company

Jon Wallenstrom  
Principal  
Alakai Development

James Moonier  
Managing Member  
Alpha Capital Research

Ann Chung  
Director of Special Projects  
Navatek

Mark Tsuda  
Executive Director at 'Ilima at Leihano - A  
Kisco Senior Living Community

Marissa Sandblom  
Vice President  
Grove Farm Company

Craig Nakanishi  
Partner  
Cades Schutte LLP

Fred Hemmings  
Retired lawmaker and  
Noted Waterman

Elijah Yip  
Partner  
Cades Schutte LLP

Luis P. Salaveria  
Director  
Department of Business, Economic  
Development & Tourism

William Mielcke  
Retired President  
Mauna Kea Resort

## **Corporate Staff & Contact**

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## ATTACHMENT 1



December 20, 2016 | 77° | Check Traffic

**Business | Tech View**

# Boost isle startup ecosystem to bring kamaaina back home

By Sara Lin

Posted December 20, 2016

December 20, 2016

Around this time of year, lots of kamaaina come home. The trek usually involves the younger generation returning to visit parents and grandparents, aunts and uncles.

The holidays are happy times, but for those visiting for a fleeting few days or weeks, they also can be a bittersweet reminder of a home close to the heart yet still so far — at least, that's how I felt in the 10 years that I lived away. The job opportunities were just better on the mainland. What finally brought me home was a startup.

Startups and innovation-related businesses are the principal drivers of growth in today's global economy. With all the momentum that's been building in our local startup ecosystem of accelerators, investment funds and entrepreneurial events, Hawaii is poised to benefit from this trend. Fittingly, kamaaina who came home are leading the charge.

Take Tina Fitch, who grew up on the Big Island and worked abroad after college. She already has launched and left one venture, Switchfly, growing it from a local software company into a global platform based in San Francisco and used by top travel and hospitality brands.

"When I started getting into the tech field, it seemed like the perfect industry to bring back home, so that in the future people like me wouldn't have to leave this place that they loved in order to pursue professional opportunities," Fitch says.

Now she's back home again and has launched her second venture. Hobnob takes all

the hassle out of organizing for any occasion by creating beautiful invitations delivered by text and a mobile platform for sharing pictures and messages before, during and after the event. In less than two years, Hobnob has attracted attention and investment from distinguished mainland venture capital firms while still maintaining its Hawaii home base with a team of 10.

Another kamaaina to come home in the startup space is David Cunningham. A successful filmmaker, Cunningham returned to his native Kona and in 2014 founded GVS Transmedia Accelerator. Incubating projects statewide, the accelerator has become a hub for film and digital media collaboration. The converted warehouse space includes a green screen, full sound studio, a gigabit hub for remote collaboration and high-speed file transfers, and even a stunt school next door. GVS recently announced that one of its graduates, a feature film project starring leading Hollywood actors, has wrapped principal photography on the Big Island. The film is also being edited and produced there.

"This project has put to work dozens of local people, giving them opportunities to work on a Hollywood-level film in high-level production positions," Cunningham says.

Hawaii should be proud of kamaaina who've come home and are helping our startup economy grow. The state has supported these early champions by funding the startup ecosystem. Fitch met her Hobnob co-founders (also kamaaina) while mentoring at Blue Startups, a public-private venture between the HI Growth Initiative and private investors. Cunningham's accelerator is a similar public-private venture that also includes Hawaii County as a partner.

Coming home shouldn't be something kamaaina do only for the holidays. We ought to do everything we can to inspire kamaaina to bring their valuable experiences home to launch new businesses and help grow the number of high-wage jobs for the next generation. Continuing to invest in the startup ecosystem might help some kamaainas' holiday wishes come true.

Companies looking for talented kamaaina with technology skills are invited to participate in the annual Holiday Tech Job Fair on Dec. 28 from 5 to 8 p.m. at the Japanese Cultural Center's Manoa Grand Ballroom.

Visit [808ne.ws/2i93jSW](http://808ne.ws/2i93jSW).

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**Sara Lin, formerly a journalist in New York, Los Angeles and Honolulu, is now an associate with the Hawaii Strategic Development Corp. Reach her at [sara.n.lin@hawaii.gov](mailto:sara.n.lin@hawaii.gov).**

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February 14, 2017 | 🌤️ 77° | 🚗 Check Traffic

**Business | Tech View**

# Extensive support available for isle business innovators

Sara Lin

Posted February 14, 2017

February 14, 2017

In past columns I profiled several kamaaina who used startups as a way to come home from the mainland. I showed how even entrepreneurs without roots in Hawaii see compelling reasons to build their companies here.

Hawaii needs more of these types of trailblazing entrepreneurs to help drive economic growth and create high-wage jobs. Now is one of the best times to start an innovative business in Hawaii. Let's run through the reasons.

First, there's an incredibly supportive startup ecosystem of six accelerators and seven investment funds covering many industry segments. Entrepreneurial events geared directly at helping young companies develop and grow happen at least once a month, if not more frequently. This community has grown exponentially and in just five years has achieved national recognition.

Mainland and international investors are taking notice. Last month hundreds of investors and entrepreneurs from Silicon Valley, Asia and Hawaii convened in Waikiki for the third annual East Meets West conference. They experienced the beaches, the perfect weather, a taste of island living. They also got the message that quality of life can be real: You can work hard and play hard in Hawaii without losing your sanity or giving up your soul.

Local entrepreneur Tina Fitch, who launched Hobnob, a mobile app and invitation platform, attests to the benefits of being away from the scrum of Silicon Valley or New York.

“I think it’s an advantage for us to have a different perspective, a different worldview than the stereotypical tech companies out of the Bay Area,” Fitch said. “The diversity of our team, our perspectives and our backgrounds are so instrumental in why our service has really resonated across such a diverse user base across the country.”

Several well-known mainland venture capital firms appear to agree and have backed her company.

Hobnob and others in this first generation of Hawaii- born startups have set the stage for the next wave of Hawaii entrepreneurs to leverage their success. Companies starting up today have the opportunity to take advantage of four years’ worth of learning, contacts and connections these companies have garnered.

So how does an aspiring entrepreneur get involved? Say you have an idea but don’t know how to turn it into a business. Maybe you need co-founders or an initial team to help get off the ground. Start with Startup Grind Honolulu, a monthly meet-up event powered by Google for Entrepreneurs to teach and connect entrepreneurs. Each event — the next one is Feb. 23 — includes a networking portion and an inspiring speaker.

If you’re deadline-oriented and need external motivation to jump-start your idea more quickly, sign up for Startup Weekend in Honolulu or Maui, both happening later this spring. These events serve as springboards to accelerator programs by launching new companies in 72 hours.

Next you’ll probably need money to really develop your business and hit milestones. If your startup idea involves technology, food, agriculture, energy or film and media, Hawaii has award-winning accelerators in each of those areas aimed at helping young companies compress their development from years into months through intense coaching and expert mentorship. Applications are open for Blue Startups, GVS and XLR8UH; Energy Exceleator’s application period opens in April.

Need to bring on a software developer or want to learn to code yourself? Contact DevLeague, a Manoa- based coding academy that offers full- and part-time learning and has graduated people accepted into high-paying jobs with tech companies.

Still with me? We can talk investment funds later. Hawaii needs a new generation of business builders to grow the economy and create exciting career opportunities for our young people. There’s no better time to start locally and grow globally.

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**Sara Lin, formerly a journalist in New York, Los Angeles and Honolulu, is now the associate with the Hawaii Strategic Development Corp. Reach her at [sara.n.lin@hawaii.gov](mailto:sara.n.lin@hawaii.gov).**

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May 3, 2017 | ☀️ 85° | 🚗 Check Traffic

Business | Tech View

# Entrepreneurial ecosystem helps boost isle tech firms

By Sara Lin

Posted May 02, 2017

May 2, 2017



COURTESY SMART YIELDS

Vincent Kimura, chief executive officer of Smart Yields, an agriculture tech startup that provides data analytics to small and medium-sized farmers, shows the company's app features to a local farmer.

In the startup community we talk about “the ecosystem” because it’s what attracts entrepreneurs. Accelerators, investment funds and co-working spaces are all critical pieces that help entrepreneurs hit the ground running.

We've seen this borne out with both homegrown local tech companies and older, more established mainland startups opening offices here.

After years in the hospitality industry, Bello Silitshena returned to his roots in tech and launched The Condo App, a software company that provides fast and reliable communication between property managers and residents. He and his business partner, Michael Harding, already had secured a handful of local buildings as clients by the time they entered Blue Startups this spring but needed help with growing and scaling their year-old company.

"We would not be where we are today without Blue Startups," Silitshena says. "They gave us the tools, knowledge and education to help us crack the business model."

The company, now called aXessPoint, is bringing in revenue and gaining traction with mainland property management firms, but it's a constant hustle to raise money from investors while also landing clients. Silitshena knows that his path from tourism to tech isn't conventional for Hawaii — but the advent of a tech-based innovation economy in America means that "you can build a company with your brain," he says.

Vincent Kimura, CEO of Smart Yields, an agricultural technology startup that provides data analytics, artificial intelligence and automation to small- and medium-size farmers growing high-value crops, says running a tech startup, compared with a traditional business, took some getting used to.

"I've built brick-and-mortar companies, and building a software company is very different because you're building an idea," Kimura says. "You're building off of the potential future versus working with your profits."

Smart Yields is progressing well and recently raised a seed round of \$420,000. The company participated in local accelerators including Blue Startups and XLR8UH. Smart Yields was just accepted into the Elemental Excelerator's go-to-market track in February. The company has grown from a founding team of three to eight employees.

In the energy space, Stem Inc., an established energy storage and data analytics company, decided to set up shop locally because Hawaii had a strong clean-tech accelerator that offered funding and strong relationships with Hawaiian Electric Co. and the military.

"We would not have made the investment to come here without the accelerator," says Tad Glauthier, a member of the founding team of California-based Stem. Many of the renewable-energy issues Hawaii faces are previews to what the mainland will see, Glauthier says, which helps Stem try to stay ahead of the game.

Glauthier moved his wife and two children to Oahu, and in three years has grown his local staff from just him to four employees and a paid intern.

A recent segment that aired on National Public Radio's "Marketplace" show noted that developing a healthy venture capital ecosystem is the key to attracting talent and capital to a region.

Not surprisingly, communities around the country are working hard to beef up their entrepreneurial ecosystems, especially the access-to-investment-capital piece. The bottom line is that strong entrepreneurial ecosystems are key to regional economic prosperity.

What these three entrepreneurs' stories show is that Hawaii's burgeoning ecosystem is attracting entrepreneurs at various stages of development. Furthermore, the community's growing density is enabling companies to find business opportunities with each other. For example, Smart Yields just inked a partnership with clean-tech startup Ibis Networks to explore ways to reduce energy costs on farms.

Hawaii would do well to continue investing in growing the entrepreneurial ecosystem that has been established.

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**Sara Lin, formerly a journalist in New York, Los Angeles and Honolulu, is now the associate with the Hawaii Strategic Development Corp. Reach her at [sara.n.lin@hawaii.gov](mailto:sara.n.lin@hawaii.gov).**

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# HONOLULU Star Advertiser

April 11, 2017 |  80° |  Check Traffic

Business | Tech View

## Valley Isle food businesses bloom with help, support

By Sara Lin  
Posted April 11, 2017  
April 11, 2017



COURTESY MAUI FOOD INNOVATION CENTER

Twelve food entrepreneurs participated in the Maui Food Innovation X-celerator's first cohort in 2016, pictured in the test kitchen at the University of Hawaii Maui College.

The closing of Hawaii's last sugar mill on Maui was the end of an era. But there's a new cadre of innovative food startups and entrepreneurs hoping to write a new chapter for the Valley Isle's agricultural story.

Take Jen Fordyce of Waikapu Pickles. The high school teacher noticed that there were no local pickles sold in stores, only the kind shipped from far away, packed with preservatives. So when a local farmer friend shared his overflow crop with her, she started testing and trying pickle recipes at home.

She decided to attend Maui Startup Weekend, a 72-hour event that challenges participants to take a business idea and launch a new company by the end.

“At the time that I went to that event, I had made one jar of pickles ever,” she said. At the end of the weekend, she had the viable beginnings of a business plan. So she tried it.

A year after launching, she was making enough pickles to sell at farmers markets, but she needed help growing to the next level. Making pickles takes few ingredients — you can count them on one hand. “But running a business, especially on an island where there’s no jar factory, there are so many other elements to it,” she said.

Fordyce was accepted to the Maui Food Innovation X-celerator. During the course — which meets one night a week for eight weeks — she and 11 other food entrepreneurs learned how to grow their businesses and expanded their network of contacts and mentors to troubleshoot problems. MFI also has access to a large test kitchen that enabled Fordyce to increase production. Waikapu Pickles is working on entering Whole Foods Maui.

Dawn Anderson of bRaw energy bars approached the food accelerator for similar reasons. The former chiropractor and travel director started out selling vegan energy bars at the Kihei Farmers Market.

“I didn’t know what I was doing,” Anderson recalled. But she had a quality product and a business card. Within a year bRaw bars landed in Down to Earth and Whole Foods Maui, and she increased her production to 1,200 bars a week from 400.

But she too needed help growing to the next level.

“When I first got there, I wore my hat down and could barely speak about my business,” Anderson said. “Now I can go up to people, tell them about my product and nail it. I know why my bar is different from everybody else’s. I have an elevator pitch, I know my value proposition and I can talk to investors — none of these were terms I knew anything about before.”

Today Anderson has expanded her market to include Whole Foods stores on Oahu and other stores on neighbor islands. Just last week bRaw bars rolled out in 45 Whole Foods stores in Southern California.

“What’s exciting is that we’re finding that Maui has a real affinity for this type of innovative food production,” says Chris Speere, site coordinator at the Maui Food Innovation Center.

The list includes cacao powders, poi doughnuts, raw macadamia nut spreads and, in the latest spring cohort, ulu noodles made with breadfruit flour. To date, the accelerator program, supported by grants from entities such as the Small Business Administration, Maui County and the state through the HI Growth Initiative, has graduated 36 entrepreneurs.

The moral of the story is that there’s a way for government to help startup businesses by filling in the entrepreneurial ecosystem with Startup Weekends, test kitchens, accelerators and follow-on investment funds. These Maui food startups show what can come together with just a little bit of support.

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June 6, 2017 | 🌤️ 86° | 🚗 Check Traffic

Business | Tech View

# Gigabit hub anchors new creative media community on Oahu

By Sara Lin

Posted June 06, 2017

June 6, 2017



COURTESY HAWAII FOREIGN TRADE ZONE

The GVS Connect gigabit hub at the Foreign Trade Zone building hosted an open house in December, demonstrating the real-time virtual collaboration capabilities made possible by the gigabit connection.

*If you build it, they will cluster.*

Cliche or not, it's exactly how economic development clusters work. Take the new creative media hub at Hawaii's Foreign Trade Zone on Ala Moana Boulevard, across from Restaurant Row.

In late 2015, GVS (Global Virtual Studio) Transmedia Accelerator opened a branch in Honolulu called GVS Connect, a public-private partnership with the Hawaii Strategic Development Corp., equipped with a dedicated multigigabit private fiber line.

Sited at the Foreign Trade Zone's new Homer A. Maxey International Trade Resource Center, the gigabit hub is outfitted to provide a collaborative work environment with workstations, plush couches, two giant televisions and state-of-the-art web cameras that allow for secure high-definition videoconferencing unlike anything else available on island.

The new collaborative workspace — and especially the private gigabit fiber connection — piqued the interest of other local creative media businesses, especially those that deal with large files that often stall out when using regular business broadband. By early 2016 local video production companies such as Berad Studios and Bonzai Media had moved into adjacent offices.

Meanwhile, the GVS room has several desks for co-working. One of the accelerator's Honolulu-based graduates is headquartered there, as are the producers of a forthcoming movie about the famed 442nd Regimental Combat Team.

Visiting Hollywood productions also see the benefit of a local space for virtual collaboration and the capability to securely upload their video files.

The gigabit connection also spawned new startups, like Vault Support. They took a room across the hall and are working for a Netflix-owned Japanese reality show, uploading daily footage to editors in Tokyo. The latest venture to join the creative media cluster has been Gripsmith, which offers production assistance and equipment rental to visiting TV and movie productions.

Hawaii's Creative Industries Division, part of the Department of Business, Economic Development and Tourism, occupies two offices on the corridor and uses it to run the Creative Labs incubator program.

"The draw was really the GVS hub," explains FTZ Administrator David Sikkink. "When you get a group of people together, even if they're competitors, they start to talk in the hallways. Their doors are open, and you start to generate that community of people who are bouncing ideas off each other. We saw that really work in this side of the new facility and our older site, too."

Even before GVS Connect opened on Oahu, the original GVS Transmedia Accelerator location in Kailua-Kona, which also has multigigabit capacity, saw a similar thing

happen. Once it opened its doors, media professionals and freelancers started renting space in its building and next door.

There's the accelerator, a Hollywood-quality green screen and professional sound studio, a production equipment rental company and a stunt school next door run by an A-list Hollywood stuntman.

GVS says it has 10 resident companies working out of the studio and between 20 and 30 independent contractors working on various projects. The building's about to get a new TV studio and editing suite, too, thanks to Big Island public-access station Na Leo, which just bought the building.

That's how economic development works: Government invests to build critical infrastructure, which turns into community assets that attract other private businesses to set up shop around them.

Hawaii needs all the help it can get when it comes to shedding its anti-business reputation. In these examples, the gigabit fiber in Honolulu and the accelerator program in Kona show how making strategic investments in key infrastructure and business acceleration programs can help anchor these centers for new business growth.

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**Sara Lin, formerly a journalist in New York, Los Angeles and Honolulu, is now the associate with the Hawaii Strategic Development Corp. Reach her at [sara.n.lin@hawaii.gov](mailto:sara.n.lin@hawaii.gov).**

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**Business | Tech View**

# Development is key to shift ideas to marketable reality

Sara Lin

Posted August 29, 2017

August 29, 2017

Hawaii has a long history of hatching new technologies out of its research and development sector. From an important building block of the internet, ALOHAnet, invented at the University of Hawaii, to an ocean mapping software developed by a local company and used by every major telecom installer in the world to lay subsea cables, Hawaii's R&D community has a strong record of producing globally relevant innovations.

There's no question R&D is an integral part of the innovation industry that drives economic growth and generates the kind of high-wage, highly skilled jobs that Hawaii desperately needs.

But when we talk about Hawaii's R&D sector, the conversation often stops at the "R" and we neglect the "D." The distinction matters because federal research dollars can't be used to bring an innovation to market. And if a product doesn't go to market, there's no impact.

"If all you have is research dollars, you get stuck. You can't use any of this federal money to make a marketing brochure or go to a conference," says Ian Kitajima, director of corporate development for Oceanit, a Honolulu engineering firm that has been one of the state's top research funding recipients. "We need other funding sources to commercialize the innovations we're hatching."

Being able to turn research into businesses and jobs has been key for companies like Makai Ocean Engineering, a Waimanalo-based firm that developed the subsea cable

software, and Referentia Systems Inc., a Honolulu software development company that specializes in cybersecurity and has spun out two companies.

Both companies were honored in January at the White House as one of 37 Tibbetts Award winners, recognized by the U.S. Small Business Administration for taking research and turning it into commercial products and jobs with big economic impacts.

“You can’t rely on the ‘R’ to stay in business,” says Duke Hartmann, vice president of business development for Makai. “Research is dependent on government funding, which is volatile. It’s good when it’s good, but it can evaporate in an instant. We only pick ideas where we think we have a path towards commercialization ... and once it becomes commercial, that’s a business line that can continue for decades.”

In the past the options for researchers to find those key development dollars locally have been few and far between. Oceanit has spent the last few years cultivating strategic partners in the Texas oil and gas industry and elsewhere to help it bring its inventions to market.

More recently, several state government programs have emerged to help more companies cross that research-to-market threshold. The Hawaii Technology Development Corp. offers matching development funds to local companies that win federal Small Business Innovation Research grants, allowing them to pursue commercial development in tandem with their research. HTDC also will host a two-day SBIR conference in Waikiki on Sept. 18-19 featuring talks from successful SBIR grantees and investors on taking research products to market.

The governor and Legislature last session also passed new measures making it easier for the University of Hawaii to support UH-based startup companies and other commercialization initiatives that facilitate the transformation of UH research in commercially viable enterprises.

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# Attachment 2



## **HSDC Capital Fund, LLC**

Financial Statements - Modified Cash Basis  
(With Independent Auditors' Report Thereon)

December 31, 2016 and 2015

# **HSDC CAPITAL FUND, LLC**

Financial Statements - Modified Cash Basis

December 31, 2016 and 2015

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## Independent Auditors' Report

The Member  
HSDC Capital Fund, LLC:

We have audited the accompanying financial statements of the HSDC Capital Fund, LLC (a Hawaii limited liability company), which comprise the statements of assets, liabilities, and member's capital - modified cash basis as of December 31, 2016 and 2015, and the related statements of revenues and expenses - modified cash basis, changes in member's capital - modified cash basis, and cash flows - modified cash basis for the years then ended, and the related notes to financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and member's capital of the HSDC Capital Fund, LLC as of December 31, 2016 and 2015, and its revenues and expenses, changes in member's capital, and cash flows for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1 to the financial statements.

***Basis of Accounting***

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

***KKDLY LLC***

Honolulu, Hawaii  
June 30, 2017

## HSDC CAPITAL FUND, LLC

### Statements of Assets, Liabilities, and Member's Capital - Modified Cash Basis

December 31, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Investments	\$ 17,515,665	\$ 18,271,078
Cash and cash equivalents	172,169	481,189
Total assets	<u>\$ 17,687,834</u>	<u>\$ 18,752,267</u>
<b>Liabilities and Member's Capital</b>		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Member's capital:		
Capital contributions	24,231,544	21,140,046
Capital distributions	(1,660,258)	(1,448,096)
Accumulated deficit	<u>(4,883,452)</u>	<u>(939,683)</u>
Total member's capital	<u>17,687,834</u>	<u>18,752,267</u>
Total liabilities and member's capital	<u>\$ 17,687,834</u>	<u>\$ 18,752,267</u>

See accompanying independent auditors' report and notes to financial statements.

## HSDC CAPITAL FUND, LLC

### Statements of Revenues and Expenses - Modified Cash Basis

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Gain (loss) on investments, net	\$ (3,943,775)	\$ 15,352
Interest income	<u>10</u>	<u>12</u>
Total revenues (losses), net	<u>(3,943,765)</u>	<u>15,364</u>
Expenses:		
General excise taxes	-	1
Other	<u>4</u>	<u>58</u>
Total expenses	<u>4</u>	<u>59</u>
Net income (loss)	<u><u>\$ (3,943,769)</u></u>	<u><u>\$ 15,305</u></u>

See accompanying independent auditors' report and notes to financial statements.

## HSDC CAPITAL FUND, LLC

### Statements of Changes in Member's Capital - Modified Cash Basis

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Member's capital, beginning of year	\$ 18,752,267	\$ 15,493,375
Net income (loss)	(3,943,769)	15,305
Contributions from member	3,091,498	3,243,587
Distributions to member	(212,162)	-
Member's capital, end of year	<u>\$ 17,687,834</u>	<u>\$ 18,752,267</u>

See accompanying independent auditors' report and notes to financial statements.

## HSDC CAPITAL FUND, LLC

### Statements of Cash Flows - Modified Cash Basis

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income (loss)	\$ (3,943,769)	\$ 15,305
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Purchases of investments	(3,306,498)	(3,119,587)
Return of capital	113,043	-
Loss on liquidation of investments	3,948,868	-
Net cash used in operating activities	<u>(3,188,356)</u>	<u>(3,104,282)</u>
Cash flows from financing activities:		
Contributions from member	3,091,498	3,243,587
Distributions to member	<u>(212,162)</u>	<u>-</u>
Net cash provided by financing activities	<u>2,879,336</u>	<u>3,243,587</u>
Net increase (decrease) in cash and cash equivalents	(309,020)	139,305
Cash and cash equivalents at beginning of year	<u>481,189</u>	<u>341,884</u>
Cash and cash equivalents at end of year	<u><u>\$ 172,169</u></u>	<u><u>\$ 481,189</u></u>

See accompanying independent auditors' report and notes to financial statements.

## **HSDC CAPITAL FUND, LLC**

Notes to Financial Statements

December 31, 2016 and 2015

### **(1) Nature of Business and Summary of Significant Accounting Policies**

#### ***Nature of Business***

HSDC Capital Fund, LLC (the Fund), a limited liability company, was established on May 25, 2001. The primary purpose of the Fund is to seek long-term compounded returns through investment in a portfolio of pooled venture capital investment vehicles investing in venture capital opportunities primarily in Hawaii. Hawaii Strategic Development Corporation (HSDC) is the sole and managing member.

#### ***Basis of Accounting***

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

Investments in venture capital partnerships are recorded at cost in the accompanying statements of assets, liabilities, and member's capital – modified cash basis, except that assignment of investments from HSDC are recorded at the carrying value of those investments at the date of the assignment. Investment balances are reduced by distributions received from the respective investments to the extent that distributions do not exceed cost. Distributions received in excess of cost are reported as gains in the accompanying statements of revenues and expenses – modified cash basis. Upon sale or liquidation of an investment, the carrying value of investments is reduced and a gain or loss on sale of investment is recorded for the difference between the sales proceeds, if any, and the carrying value of the investment.

#### ***Use of Estimates***

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Company considers cash in operating bank accounts, cash on hand, and certificates of deposits with an initial maturity of three months or less to be cash and cash equivalents.

## HSDC CAPITAL FUND, LLC

### Notes to Financial Statements

December 31, 2016 and 2015

#### *Income Taxes*

The Company is a limited liability company and is treated as a partnership for income tax purposes. Management has determined that the Fund is a disregarded entity for income tax purposes and is not required to file tax returns.

#### *Subsequent Events*

Management has evaluated subsequent events through June 30, 2017, the date the financial statements were available to be issued, and determined that there were no other items to disclose.

## (2) Investments

The Fund's investments as of December 31, 2016 and 2015, and the related investment activity for the years then ended are summarized as follows:

	Percentage Interest	Total Capital Committed	Balance 12/31/15	Capital Contributions	Distributions	Loss on Investments	Balance 12/31/16
International Venture Fund I, L.P.	27.01%	\$ 4,500,000	\$ 3,863,629	\$ -	\$ (113,043)	\$ (3,750,586)	\$ -
Upside I	23.84%	117,693	117,693	-	-	-	117,693
Upside II	50.00%	3,000,000	1,125,000	175,000	-	-	1,300,000
HMS Hawaii III, L.P.	12.10%	360,612	198,032	-	-	(198,032)	-
Cardax Pharmaceuticals	N/A	N/A	250	-	-	(250)	-
Kolohala Hydrogen Fund, L.P.	99.00%	5,386,000	5,386,000	-	-	-	5,386,000
Blue Ventures, LLLP	50.00%	1,220,000	1,220,000	-	-	-	1,220,000
Blue Ventures II, L.P.	50.00%	1,170,000	300,000	450,000	-	-	750,000
PacifiCap Hawaii, L.P.	99.00%	3,000,000	2,292,887	-	-	-	2,292,887
Reef Fund I, L.P. (formerly mBloom Fund I, L.P.)	99.99%	2,813,085	1,822,587	458,498	-	-	2,281,085
Reef Fund II, L.P.	99.99%	2,257,500	-	-	-	-	-
GTA Development Fund, LLC	80.00%	2,700,000	735,000	743,000	-	-	1,478,000
GVS Connect, LLC	N/A	300,000	220,000	80,000	-	-	300,000
Startup Capital Ventures Fund II, L.P.	16.15%	4,500,000	990,000	450,000	-	-	1,440,000
EEx Fund One, LLC	50.00%	1,650,000	-	950,000	-	-	950,000
		<u>\$ 32,974,890</u>	<u>\$ 18,271,078</u>	<u>\$ 3,306,498</u>	<u>\$ (113,043)</u>	<u>\$ (3,948,868)</u>	<u>\$ 17,515,665</u>

## HSDC CAPITAL FUND, LLC

### Notes to Financial Statements

December 31, 2016 and 2015

	Percentage Interest	Total Capital Committed	Balance 12/31/14	Capital Contributions	Distributions	Loss on Investments	Balance 12/31/15
International Venture Fund I, L.P.	27.01%	\$ 4,500,000	\$ 3,863,629	\$ -	\$ -	\$ -	\$ 3,863,629
Upside I	23.84%	117,693	117,693	-	-	-	117,693
Upside II	50.00%	3,000,000	525,000	600,000	-	-	1,125,000
HMS Hawaii III, L.P.	12.10%	360,612	198,032	-	-	-	198,032
Cardax Pharmaceuticals	N/A	N/A	250	-	-	-	250
Kolohala Hydrogen Fund, L.P.	99.00%	5,386,000	5,386,000	-	-	-	5,386,000
Blue Ventures, LLLP	50.00%	1,220,000	970,000	250,000	-	-	1,220,000
Blue Ventures II, L.P.	50.00%	1,170,000	-	300,000	-	-	300,000
PacifiCap Hawaii, L.P.	99.00%	3,000,000	2,292,887	-	-	-	2,292,887
mBloom Fund I, L.P.	49.50%	5,000,000	1,188,000	634,587	-	-	1,822,587
GTA Development Fund, LLC	50.00%	2,700,000	385,000	350,000	-	-	735,000
GVS Connect, LLC	N/A	300,000	-	220,000	-	-	220,000
Startup Capital Ventures Fund II, L.P.	16.15%	4,500,000	225,000	765,000	-	-	990,000
EEx Fund One, LLC	50.00%	1,650,000	-	-	-	-	-
		<u>\$ 32,904,305</u>	<u>\$ 15,151,491</u>	<u>\$ 3,119,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,271,078</u>

### ***Regional Venture Capital Funds***

#### ***International Venture Fund I, L.P.***

The Fund held a 27.01% limited partnership interest in this California-based venture capital partnership. International Venture Fund I, L.P. was an investor in early stage companies operating in the states of Hawaii, New Mexico, Arizona, and Utah. During the year ended December 31, 2016, the Fund received a distribution of \$113,043. International Venture Fund I, L.P. was dissolved in 2016. The Fund recognized a loss of \$3,750,586, which is included in gain (loss) on investments, net in the accompanying statements of revenues and expenses – modified cash basis for the year ended December 31, 2016.

#### ***Startup Capital Ventures Fund II, L.P.***

The Fund holds a 16.15% limited partnership interest in this California and Hawaii-based venture capital partnership. Startup Capital Ventures Fund II, L.P. is an investor in early stage companies operating primarily in the states of California and Hawaii.

### ***Funds to Support Technology Transfer from the University of Hawaii***

#### ***Upside I***

The Fund holds a 23.84% interest in this pooled capital fund. The balance is held by the Research Corporation of the University of Hawaii (UH). The capital fund is tasked with investing in promising start-up companies using UH developed intellectual property.

## **HSDC CAPITAL FUND, LLC**

Notes to Financial Statements

December 31, 2016 and 2015

### *Upside II*

The Fund holds a 50.00% interest in this pooled capital fund. The balance is held by the University of Hawaii Foundation. The capital fund is tasked with investing in promising start-up companies using UH developed intellectual property.

### *Hawaii-Based Venture Capital Funds*

#### *HMS Hawaii III, L.P.*

The Fund had a 12.10% limited partnership interest in this Hawaii-based venture capital partnership. HMS Hawaii III, L.P. targeted investments in early stage companies operating principally in the State of Hawaii. HMS Hawaii III, L.P. was dissolved in 2016. The Fund recognized a loss of \$198,032, which is included in gain (loss) on investments, net in the accompanying statements of revenues and expenses – modified cash basis for the year ended December 31, 2016.

#### *Kolohala Hydrogen Fund, L.P.*

The Fund holds a 99.00% limited partnership interest in this Hawaii-based venture capital partnership. Kolohala Hydrogen Fund, L.P. invests in companies with technologies that have a pathway to renewable hydrogen.

#### *PacifiCap Hawaii, L.P.*

The Fund holds a 99.00% limited partnership interest in this Hawaii-based venture capital partnership. PacifiCap Hawaii, L.P. invests in technology and emerging growth companies located in the United States and Asia-Pacific region.

#### *Reef Fund I, L.P. (formerly known as mbloom Fund I, L.P.)*

The Fund has a 99.99% limited partnership interest in this Hawaii-based venture capital partnership. Reef Fund I, L.P. is dedicated to investing in early stage technology companies operating in the State of Hawaii.

Effective June 24, 2016, the general partner changed its name from “Snap Ventures LLC” to “Reef Capital Ventures LLC” and on July 4, 2016, the fund changed its name from “mbloom Fund I, L.P.” to “Reef Fund I, L.P.”. The Fund is presently the sole limited partner.

## **HSDC CAPITAL FUND, LLC**

### Notes to Financial Statements

December 31, 2016 and 2015

#### *Reef Fund II, L.P.*

The Fund has a 99.99% limited partnership interest in this Hawaii-based venture capital partnership. Effective December 2016, the Fund committed \$2,257,500 to Reef Fund II, L.P. Reef Fund II, L.P. is dedicated to investing in early stage technology companies operating in the State of Hawaii.

In November 2016, Reef Fund I, L.P. was restructured to form Reef Fund II, L.P., in which the majority of the total unfunded capital committed would be allocated to this new fund to target Hawaii commercialization opportunities. The Fund is presently the sole limited partner.

#### *EEx Fund One, LLC*

Effective December 28, 2015, the Fund committed \$1,650,000 to EEx Fund One, LLC. The Fund holds a 50.00% limited partnership interest in this Hawaii-based venture capital partnership. EEx Fund One, LLC invests in companies participating in the Energy Excelerator program of the Pacific International Center for High Technology Research.

A portion of the Fund's capital commitment is used to pay the operating expenses of the Energy Excelerator program. For the year ended December 31, 2016, the Fund made contributions of \$50,000 to pay these operating expenses. Total capital committed of \$1,650,000 reported in the investment summary described above includes \$150,000 for such operating expenses.

#### ***Direct Investments***

##### *Cardax Pharmaceuticals*

The Fund purchased secured promissory notes with attached warrants. Cardax Pharmaceuticals is a Hawaii-based bio technology company. The promissory notes were previously repaid to the Fund. During 2016, the warrants expired unexercised.

As part of the liquidation of International Venture Fund I, L.P., the Fund received shares of Cardax Pharmaceuticals with a fair market value of \$20,603 at December 31, 2016.

##### *GVS Connect, LLC*

Effective June 8, 2015, the Fund entered into an investment agreement with GVS Connect, LLC, a Hawaii-based high speed broadband provider. The Fund received revenue participation rights in return of its investment. As such, the Fund advanced funds in exchange for the right to receive a portion of GVS Connect, LLC's net revenues as defined in the investment agreement.

## **HSDC CAPITAL FUND, LLC**

Notes to Financial Statements

December 31, 2016 and 2015

### ***Funds to Support Hawaii Angels***

#### ***Blue Ventures, LLLP***

The Fund holds a 50.00% limited partnership interest in this Hawaii-based venture capital partnership. Investors in the fund are Hawaii Angel investors. This fund invests exclusively in the portfolio companies of the Blue Startups venture accelerator.

A portion of the Fund's capital commitment is used to pay the operating expenses of Blue Startups, LLC. This is subject to the achievement of certain milestones as determined by the Fund. For the year ended December 31, 2015, the Fund made contributions of \$250,000, to pay these operating expenses. Total capital committed of \$1,220,000 reported in the investment summary described above includes \$700,000 for such operating expenses.

#### ***Blue Ventures II, L.P.***

The Fund holds a 50.00% limited partnership interest in this Hawaii-based venture capital partnership. This fund invests exclusively in the portfolio companies of the Blue Startups venture accelerator.

A portion of the Fund's capital commitment is used to pay the operating expenses of Blue Startups, LLC. This is subject to the achievement of certain milestones as determined by the Fund. The Fund made contributions of \$250,000 towards the payment of operating expenses for the year ended December 31, 2016. Total capital committed of \$1,170,000 reported in the investment summary described above includes \$400,000 to pay these operating expenses.

### ***Funds to Support the Accelerator Program***

#### ***GTA Development Fund, LLC***

The Fund holds a 80.00% limited partnership interest in this Hawaii-based investment fund. This fund was established to raise investment capital to seed portfolio companies going through the accelerator program.

A portion of the Fund's capital commitment is used to pay the operating expenses of GTA Development Fund, LLC. This is subject to the achievement of certain milestones as determined by the Fund. For each of the years ended December 31, 2016 and 2015, the Fund made contributions of \$200,000, to pay these operating expenses. Total capital committed of \$2,700,000 reported in the investment summary described above includes \$700,000 for such operating expenses.

## HSDC CAPITAL FUND, LLC

Notes to Financial Statements

December 31, 2016 and 2015

### *Other Investments*

#### *TAC Associates, L.P.*

The Fund received a 0.87% limited partnership interest in this California-based venture capital partnership as a distribution from the dissolution of Lava Ventures IV. This investment has no carrying value as of December 31, 2016 and 2015. The Fund received distributions from this investment during the years ended December 31, 2016 and 2015, amounting to \$3,730 and \$7,120, respectively. These distributions are included in gain (loss) on investments, net in the accompanying statements of revenues and expenses – modified cash basis.

#### *Three Arch Associates III, L.P.*

The Fund received a 1.58% limited partnership interest in this California-based venture capital partnership as a distribution from the dissolution of Lava Ventures IV. This investment has no carrying value as of December 31, 2016 and 2015. The Fund received distributions from this investment during the years ended December 31, 2016 and 2015, amounting to \$1,363 and \$7,990, respectively. These distributions are included in gain (loss) on investments, net in the accompanying statements of revenues and expenses – modified cash basis.

### **(3) Concentration of Credit Risk**

The Company maintains deposits with various financial institutions in Hawaii. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limits.