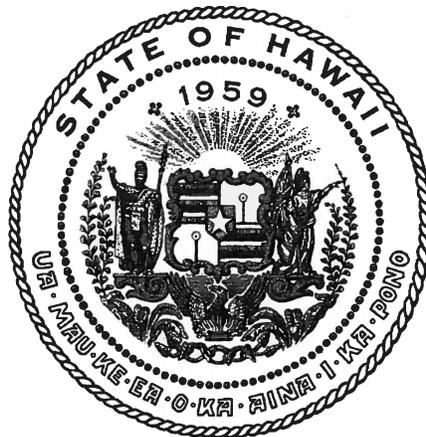


**Descriptive Statistics on the Operations of
Qualified High Technology Businesses
From 2000 Through 2009**

**Addendum to the Report
of September 2009**



**Department of Taxation
State of Hawaii
September 2010**

Table of Contents

Table of Contents	i
Introduction	1
Section I - Data Collection Methodology	2
Section II - Highlights of 2009 Findings on the Operations of Qualified High Technology Businesses and Investment Credits Claimed	3
Section III - Detailed Data on QHTBs Operations in Calendar Year 2009 and on Claims for the Research Credit in Tax Year 2008.....	5
Acknowledgements.....	8
Appendix A - Tables	9
Table 1 - Cash Investment Received by QHTBs, by Year (2009 Filers)	10
Table 1a - Cash Investment Received by 163 QHTBs on or after May 1, 2009 (2009 Filers).....	11
Table 2 - High Technology Business Investment Tax Credits Claimed for Tax Years 1999 Through 2008	12
Table 3 - 2009 Hawaii Revenues and Expenses (2009 Filers)	13
Table 4 - Cash Investment Received, by Quarter (2009 filers)	14
Table 5 - Salaries of Full-Time Hawaii Employees of QHTBs in 2009 (2009 Filers)	15
Table 6 - Annualized Salaries of Part-Time Hawaii Employees of QHTBs in 2009 (2009 Filers)	16
Table 7 - Number and Duration of Temporary or Seasonal Hawaii Workers and Independent Contractors Hired by QHTBs in 2009 (2009 Filers).....	17
Table 8 - Research Credits Claimed and General Excise Tax Paid by QHTBs in 2009 (2009 Filers)	18
Table 9 - The 125 QHTBs Receiving Investment after June 30, 2007	19

Descriptive Statistics on the Operations of Qualified High Technology Businesses From 2000 Through 2009

Introduction

This report responds to the requirements of Act 206, Session Laws of Hawaii of 2007. The Act directs the Department of Taxation (DOTAX) to conduct an annual survey, using electronic forms, to gather information on the operations of qualified high technology businesses (QHTBs) and to report the information to the Legislature. This report supplements the report provided in September 2009 that covered the years 2000 through 2008 and incorporates information collected for calendar year 2009. The Act also requires the Department to submit a report in December of each year, analyzing the impact of the high technology business investment tax credit on Hawaii's economy. The information gathered for the September report will be used to support the analysis in the December report.

This report is divided into three sections. Section I describes the process used this year to collect the required data. Section II summarizes the main findings on the operations of QHTBs that filed the annual survey for 2009 and the tax credits granted to these entities. Section III provides more detailed data on the operations of these QHTBs, including data on their activities, on their employment, and on the investments they received, and on the research credits that they claimed (the tax credit for research activities made available by section 235-110.91, HRS).

Section I

Data Collection Methodology

To comply with the requirements of Act 206, the State Department of Taxation redesigned Form N-317 in 2008. This form, officially called the “Statement of a Qualified High Technology Business,” was redesigned in 2008 with the help of the representatives of the technology industries. The form for 2009 was modified slightly to capture cash investment received on or after May 1, 2009¹ and average salary for full-time employees in 2009.

All QHTBs that accepted investments in calendar years 2004 through 2009, or that were eligible to receive tax credits during this six-year period, are required to file Form N-317 for calendar year 2009. The filing deadline was June 30, 2010.

This year a total of 163 firms completed and submitted a Form N-317 by the required deadline². This compares to a total of 180 firms that filed the form for tax year 2008.

¹ Act 178, Session Laws of Hawaii 2009, amends section 235-110.9, Hawaii Revised Statutes (HRS), also known as the High Technology Business Investment Tax Credit. For investments made on or after May 1, 2009 and on or before December 31, 2010, the Act limits claims of the high technology business investment tax credit to 80% of tax liability, allows only a one-to-one credit allocation ratio, and eliminates carryovers. The amendments also apply to claims for this credit under Chapters 241 and 431:7, HRS.

² Two (2) of the 163 filers filed late. However, their data is included to present as comprehensive data as possible.

Section II

Highlights on of 2009 Findings on the Operations of Qualified High Technology Businesses and Investment Credits Claimed

As shown in Table 1, a total of 163 QHTBs file Form N-317 for calendar year 2009. These QHTBs (the “2009 filers”) received a total of \$157.5 million in cash investments in 2009. This compares to \$251.9 million received in 2008. Table 1a shows that of the total of \$157.5 million received in 2009, 58% (or \$91.0 million) was received on or after May 1, 2009.

The cumulative total of investments made since 2000 is \$1.335 billion, which represents the total accumulated exposure of the State to potential claims for the investment credit created by investments in these QHTBs.³ The 2009 filers claimed a total of \$10.9 million in research credits in 2009 (see Table 8). This compares to a total of \$13.4 million reported last year by the 2008 filers.

For tax years 1999 through 2008, investors have claimed a total of \$562.3 million in investment credits (see Table 2). This represents 42% of the total tax credit liability. Thus, the total possible additional credits that could be claimed by investors in these companies is \$773.1 million. This figure is represents the “carryovers” -- the “tail of the tax credits” (or subsequent years’ credits) -- since investors are allowed to claim these credits over a five-year period or until used,⁴ and the State remains obligated to honor these tax credit claims, thus reducing the State’s actual revenues.

Expenses continue to outpace revenues for the 2009 filers, indicating the majority of the reporting QHTBs were not profitable in 2009. As Table 3 shows, the 2009 filers had total revenues of \$148.9 million and total expenses of \$316.5 million.

The 2009 filers reported a total of 1,143 full time employees, 143 part-time employees, and 605 temporary and seasonal workers, and they employed 1,116 independent contractors (see Tables 5, 6, and 7). This compares with 1,375 full time

³ The cumulative total investments of \$1.335 billion is the amount reported by the 163 QHTBs that filed an annual survey (i.e.: Form N-317) by June 30, 2010 (Note: 2 QHTBs of the 163 QHTBs filed after June 30, 2010).

⁴ Because these investments credits are nonrefundable, such credits may only be claimed against actual tax liabilities, and any excess is generally carried forward until exhausted.

employees, 156 part-time employees, and 274 temporary and seasonal workers, and 2,781 independent contractors reported by the 2008 filers.

Note that comparisons with prior year data should recognize that the universe of firms reporting may not be the same. Comparison data is provided to help legislators and policy makers identify trends.

Section III
Detailed Data on QHTBs
Operations in Calendar Year 2009 and on Claims for the Research
Credit in Tax Year 2008

As in previous years, that data collected from Form N-317 are presented according to the activity category of the QHTBs. Specifically, the data are presented for the following seven activity categories:

- Biotechnology
- Computer software
- Non-fossil fuel energy
- Performing arts
- Ocean sciences
- Research as defined by the IRS Code Section 41(d)
- Multiple activities – for QHTBs doing more than one of the above activities

Table 1 shows the cash investment received by each of seven categories and by tax year. Table 1 also provides a breakdown on the number of QHTBs engaged in each of the 7 categories. Of the 163 QHTBs that filed Form N-317 for 2009, 44 were engaged in performing arts, 40 were engaged in multiple activities, 35 were engaged in computer software activities, and the remaining 44 were spread among the other four categories. As shown in Table 1, QHTBs in the performing arts category accounted for \$105.1 million out of the total of \$157.5 million in cash investments received by the 2009 filers. The second largest category was multiple activities. QHTBs in this activity category received investments totaling \$18.2 million in 2009.

Table 1a shows the cash investment received by each of seven categories on or after May 1, 2009 for tax year 2009. The cash investment on or after May 1, 2010 is subject to the new law, Act 178, Session Laws of Hawaii 2009. Table 1a shows that \$91.0 million or 58% of the total investment in 2009 was made on or after May 1, 2009.

Table 2 provides by tax year: (a) the number of credit claims; (b) total dollar value of credit claims; and (c) credits claimed by type of taxpayer, such as individuals, corporations, financial corporations, insurance underwriters, fiduciaries, and exempt organizations.

Table 3 displays the revenues and expenses of the firms that received Act 221/Act 215 tax credit investments in 2009. As indicated in Section II, expenses significantly outpaced revenues for these firms, resulting in negative cash flows for the bulk of the firms receiving tax credit assistance. The largest category of expenses incurred by these firms was for payroll costs, which totaled \$104.1 million in 2009.

Table 4 reaffirms that the bulk of the investments occurred in the fourth quarter of the calendar year. Of the \$157.5 million invested in 2009, 44% (\$69.9 million) was invested during the final months of the year, as taxpayers determined their tax liabilities in Hawaii and made decisions to offset these liabilities through investments in QHTBs.

Table 5 provides salary information for the 1,143 full time employees reported on the payrolls of the 2009 filers for the last pay period of the year. As shown in the table, 38% of the employees earned between \$30,000 and \$60,000 per year. Another 38% earned between \$60,000 and \$100,000 per year. The balance earned salaries above or below these ranges. The average salary for these employees is \$68,861. QHTBs in the multiple activities category paid the highest average salary of \$84,923. QHTBs in research activities as defined in IRC section 41(d) paid the second highest average salary of \$83,992. QHTBs in research performing arts paid the lowest average salary of \$53,488.

Table 6 shows the distribution of annualized salaries for the 143 part-time Hawaii employees reported by these QHTBs. The bulk of these individuals (68%) earned less than \$30,000 per year.

Table 7 shows that the 2009 filers employed a total of 605 temporary or seasonal workers. Most of these workers were employed for less than 30 days. The table also shows that the 2009 filers hired a total of 1,116 independent contractors. Most of the independent contractors (43% or 481) were hired by QHTBs engaged in the performing arts.

Table 8 shows that the 2009 filers claimed research credits of \$10.9 million during 2009. Research credits are designed to encourage firms to engage in scientific research and product development activities. More than half of the research credits were claimed by firms in the multiple activities category. Table 8 also shows that the QHTBs reported paying \$2.0 million in general excise tax (GET) in 2009. Most of the QHTBs likely do not pay corporate income tax because they do not have profits. The data on GET were gathered for the first time for 2008 to help gauge the taxes that these firms pay to help offset the revenue cost of the investment credit and the research credit. The 2008 filers reported paying \$2.1 million in GET.

Table 9 lists the names of all 125 QHTBs that received investments after June 30, 2007.

Acknowledgements

This report responds to the requirement set forth in Act 206 of 2007 that the Department of Taxation survey qualified high technology businesses each year and submit a report to the Legislature on the data collected in the survey.

Act 206 also requires the Department to submit a report in December of each year, analyzing the impact of the high technology business investment tax credit on Hawaii's economy. The information contained in the September report will be used to provide the December analysis.

DOTax wishes to acknowledge the work of the staff that compiled this data and also to express appreciation to the 163 QHTBs that prepared and submitted Form N-317 by the June 30, 2010 deadline.

APPENDIX A

TABLES

Table 1. Cash Investment Received by 163 QHTBs, by Year (2009 Filers)

Activity		Year Investment Received				
		2000	2001	2002	2003	2004
Research as in IRC Sec. 41(d)	12	\$0	\$2,500,000	\$14,259,000	\$12,860,000	\$14,061,498
Biotechnology	15	150,000	1,925,150	2,237,997	7,775,252	7,227,361
Computer Software	35	2,891,008	2,698,008	14,979,096	7,156,498	9,814,139
Non-fossil Fuel Energy	15	0	450,000	9,750	5,771	3,246
Performing Arts	44	0	20,000	823,748	3,487,741	104,307,146
Ocean Sciences	2	0	0	0	0	0
Multiple Activities	40	148,427	1,348,533	31,458,392	32,770,668	50,656,711
TOTAL	163	\$3,189,435	\$8,941,691	\$63,767,983	\$64,055,930	\$186,070,101

Activity		Year Investment Received				
		2005	2006	2007	2008	2009
Research as in IRC Sec. 41(d)	12	\$10,801,500	\$9,540,300	\$23,956,262	\$15,456,322	\$5,540,000
Biotechnology	15	11,653,252	12,298,264	4,069,809	7,940,381	4,278,104
Computer Software	35	14,487,850	29,982,711	42,226,677	26,148,927	14,308,279
Non-fossil Fuel Energy	15	166,839	2,501,247	6,795,899	47,617,665	9,805,808
Performing Arts	44	87,252,084	89,106,058	93,882,181	109,741,471	105,148,104
Ocean Sciences	2	0	87,852	1,044,729	917,679	260,000
Multiple Activities	40	35,121,775	58,278,654	66,710,917	44,074,361	18,156,100
TOTAL	163	\$159,483,300	\$201,795,086	\$238,686,474	\$251,896,806	\$157,496,395

Table 1a. Cash Investment Received by 163 QHTBs on or after May 1, 2009 (2009 Filers)

Activity	Amount Received in 2009	Amount Received between 5/1/09 - 12/31/09	% Received between 5/1/09 - 12/31/09
Research as in IRC Sec. 41(d)	\$5,540,000	\$3,130,000	56%
Biotechnology	4,278,104	3,689,960	86%
Computer Software	14,308,279	3,677,179	26%
Non-fossil Fuel Energy	9,805,808	7,189,600	73%
Performing Arts	105,148,104	62,964,503	60%
Ocean Sciences	260,000	260,000	100%
Multiple Activities	18,156,100	10,116,026	56%
TOTAL	\$157,496,395	\$91,027,268	58%

Table 2. High Technology Business Investment Tax Credits Claimed¹ for Tax Years 1999 through 2008

Year	Total No. of Claims	Total Credit	Individuals	Corporations	Financial Corporations ²	Insurance Underwriters	Fiduciaries	Exempt Organizations
1999	23	\$162,208	N/A	N/A	N/A	N/A	N/A	N/A
2000	103	393,633	N/A	N/A	N/A	N/A	N/A	N/A
2001	268	9,579,923	\$3,334,260	\$225,205	\$4,209	\$6,013,757	\$2,492	N/A
2002	493	26,185,181	11,191,036	1,710,041	N/A	13,057,896	226,208	N/A
2003	652	38,870,301	13,360,232	3,855,197	2,100,658	19,391,764	162,450	N/A
2004	1,040	50,543,285	26,858,573	994,571	1,599,658	20,714,206	376,277	N/A
2005	1,216	69,827,709	38,111,997	3,428,405	2,286,892	25,293,046	700,845	\$6,524
2006	1,842	105,407,136	59,622,619	8,471,761	10,146,111	26,732,870	431,802	1,973
2007	2,235	140,139,109	82,717,224	9,478,054	15,669,335	29,913,337	2,336,416	24,743
2008 ³	2,488	121,200,553	67,361,978	9,605,761	10,737,197	30,193,343	3,298,623	3,651
Totals	10,360	\$562,309,038	\$302,557,919	\$37,768,995	\$42,544,060	\$171,310,219	\$7,535,113	\$36,891

Source: Tax Research and Planning Office.

¹ Tax credits actually used (deducted from Hawaii income taxes due).

² Financial corporations are defined as corporations that file Form F-1, the Franchise Tax return.

³ Unaudited data.

Table 3. 2009 Hawaii Revenues and Expenses (2009 Filers)

Activity		Revenues	Expenses	Non-Cash Expenses	Interest Expenses	Capital Expenditures	Payroll	Scientific Contractor Expenses	Performing Arts Contract Expenses	Other Contractor Expenses
Research as in IRC Sec. 41(d)	12	\$6,920,417	\$23,142,044	\$1,008,920	\$8,613	\$2,854,639	\$8,254,487	\$742,144	\$0	\$10,821,489
Biotechnology	15	2,610,258	8,573,550	227,336	91,254	77,733	2,930,370	1,804,485	0	428,281
Computer Software	35	37,805,376	54,706,953	3,397,416	682,636	1,259,032	27,740,074	2,098,605	0	1,787,594
Non-fossil Fuel Energy	15	7,490,662	15,566,154	4,952,360	57,839	10,317,981	3,423,819	11,860,903	0	131,674
Performing Arts	44	2,956,012	109,301,088	736,692	20,503	787,094	6,492,195	71,003	73,458,900	126,958
Ocean Science s	2	330,765	431,269	3,818	1,324	369	394,397	194,533	0	104,457
Multiple Activities	40	90,747,334	104,749,331	3,849,468	696,642	1,667,723	54,897,331	8,449,700	1,012	4,729,780
TOTAL	163	\$148,860,824	\$316,470,389	\$14,176,010	\$1,558,811	\$16,964,571	\$104,132,673	\$25,221,373	\$73,459,912	\$18,130,233

Table 4. Cash Investment Received by 163 QHTBs, by Quarter (2009 Filers)

Year of Investment	Q1	Q2	Q3	Q4	Year Total
2000	\$523,429	\$125,000	\$560,000	\$1,981,006	\$3,189,435
2001	379,412	155,000	1,513,129	6,894,150	8,941,691
2002	13,340,415	8,975,762	6,768,718	34,683,088	63,767,983
2003	7,979,872	4,742,673	4,808,975	46,524,410	64,055,930
2004	6,195,410	71,274,340	21,149,662	87,450,689	186,070,101
2005	26,291,350	27,128,933	22,728,802	83,334,215	159,483,300
2006	21,636,996	24,065,302	28,345,819	127,746,969	201,795,086
2007	21,522,800	27,215,368	50,730,463	139,217,843	238,686,474
2008	36,675,097	29,199,711	43,745,689	142,276,309	251,896,806
2009	38,063,979	31,409,407	18,141,476	69,881,533	157,496,395
Total	\$172,608,760	\$224,291,496	\$198,492,733	\$739,990,212	\$1,335,383,201

Table 5. Salaries of Full-Time Hawaii Employees of QHTBs in 2009 (2009 Filers)

Activity	Number of Full-Time Employees Earning a Salary of				Total as of the week of 12/12/08	Total as of the week of 12/12/09	Average Salary for Full-Time Employees (2009)
	\$0 - \$30,000	\$30,000 - \$60,000	\$60,000 - \$100,000	\$100,000 or more			
Research as in IRC Section 41(d)	2	41	46	13	113	102	\$79,420
Biotechnology	5	20	13	5	46	43	54,747
Computer Software	26	150	142	43	360	361	66,636
Non-fossil Fuel Energy	0	28	13	8	52	49	58,890
Performing Arts	8	17	4	1	22	30	53,488
Ocean Science s	0	1	3	0	3	4	83,922
Multiple Activities	9	174	209	162	615	554	84,923
TOTAL	50	431	430	232	1,211	1,143	\$68,861

Table 6. Annualized Salaries of Part-Time Hawaii Employees of QHTBs in 2009 (2009 Filers)

Activity	Number of Part-Time Employees Earning a Salary of				Total
	\$0 - \$30,000	\$30,000 - \$60,000	\$60,000 - \$100,000	\$100,000 or more	
Research as in IRC Section 41(d)	0	3	0	0	3
Biotechnology	15	1	0	1	17
Computer Software	30	9	3	1	43
Non-fossil Fuel Energy	0	0	0	1	1
Performing Arts	6	2	0	0	8
Ocean Science s	0	2	0	2	4
Multiple Activities	46	15	4	2	67
TOTAL	97	32	7	7	143

Table 7. Number and Duration of Temporary or Seasonal Hawaii Workers and Independent Contractors Hired by QHTBs in 2009 (2009 Filers)

Activity	Number of Temporary Workers Hired for					Total	No. of Independent Contractors
	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 365 Days			
Research as in IRC Section 41(d)	1	0	6	4		11	83
Biotechnology	0	0	0	0		0	41
Computer Software	4	6	2	2		14	151
Non-fossil Fuel Energy	0	0	0	0		0	42
Performing Arts	320	217	0	10		547	481
Ocean Science s	0	0	0	0		0	11
Multiple Activities	5	8	10	10		33	307
TOTAL	330	231	18	26		605	1,116

Table 8. Research Credits Claimed and General Excise Tax Paid by QHTBs in 2009 (2009 Filers)

	Research Credit Claimed	General Excise Tax Paid
Research as in IRC Section 41(d)	\$1,362,548	\$87,019
Biotechnology	565,062	15,435
Computer Software	1,772,084	866,483
Non-fossil Fuel Energy	212,127	336,890
Performing Arts	0	63,447
Ocean Sciences	100,474	4,401
Multiple Activities	6,837,980	666,538
TOTAL	\$10,850,275	\$2,040,213

Table 9. The 125 QHTBs Receiving Investment After June 30, 2007 (2009 Filers)

ABR, LLC	Hi-Tech Insurance Systems Development	Pacific Network, LLC
AEOS SYSTEMS, LLC	Hoike Services Inc.	Panthera Biopharma, LLC
AGIS Network, Inc.	Honolulu Seawater Air Conditioning LLC	Personal Health Labs, LLC
Aina Koa Pono LLC	Ho'okele Health Technologies, LLC	PHYCAL HAWAII R&D LLC
Angelin LLC	Hookipa Media Productions, LLC	Pineapple Pictures, LLC
Animate Farm LLC	I Am Hawaii, LLC	Pipeline Micro, Inc.
Applied Marine Solutions	Innovasc LLC	PIPELINEFX LLC
ASIA PACIFIC FILMS.COM INC	IRIS WIRELESS DEVELOPMENT LLC	ProData System, LLC
ATLANTIS CYBERSPACE INC	Island Film Studios, LLC	Pukoa Scientific
Avatar Reality, Inc	island planet one productions, LLC	RSVPstyle LLC
BAE Systems Spectral Solutions LLC	Island Productions Project II, LLC	Science and Technology International Inc
BestProjectBid, Inc.	Island Productions Project III, LLC	SDC HAWAII, LLC
Big Island Biodiesel LLC	Island Productions Project IV, LLC	Short List LLC
BIOENERGY HAWAII LLC	Kai Medical, Inc.	Shrimp Improvement Systems Hawaii LLC
Black Ivory Biotech Corporation	Keahole Solar Power LLC	Sopogy, Inc.
Blue Cliff, Inc.	KIC Technology 1, Inc.	Spy vs. Stu Production LLC
Blue Lava Technologies Inc.	KIC Technology 2, Inc.	STI Medical Systems, LLC
Broadband iTV, Inc.	Kinetic Films	STI Research, LLC
Cardax Pharmaceuticals, Inc.	Kolu Pohaku Technologies, LLC	Stoked Productions, LLC
Charles Michael Brotman Music LLC	Kuehnl Agrosystems, Inc.	Sunrise Capital, Inc
ClearFuels Technology, Inc.	Lanai Sustainability Research, LLC	Sustainable Energy Systems of Hawaii Inc
CONFIDANT HAWAII LLC	MAKILA HYDRO LLC	Talisman LBS, LLC
Convergence CT, Inc.	MARLIN POWER COMPANY LLC	TeamPraxis, LLC
DiscoveryBox, Inc.	MAUI FRESH FISH LLC	Tempest Production LLC
Edutainment Resources, Inc.	MAUI AG TECH, LLC	TeraSys Technologies LLC
Epicrays LLC	Mera Pharmaceuticals, Inc.	Tissue Genesis Institute, LLC
e-telligents, LLC	Mid Pacific Communications, Inc.	Tissue Genesis, Inc.
Family Tree Productions, LLC	MIX808, LLC.	TP Research Hawaii, LLC
Functional Nutriments LLC	MMP PROJECT I LLC	Trex Hawaii, LLC
Get2Hawaii, Inc.	Mobirez LLC (fka Bookitnow LLC)	uBoost, Inc.
Getting That Girl LLC	NANOPOINT, INC	Ulua Media, LLC
GRAMCAST LLC	Natural Power Concepts, Inc	VASPER SYSTEMS LLC
Grass Skirt Productions, LLC	Navatek Alternative Energy Technologies	Veyond Pacific Technology, Inc.
GREEN ENERGY HYDRO LLC	Navatek CFD Technologies, LLC.	VEYOND TECHNOLOGY, INC.
GREEN ENERGY TEAM LLC	Navatek Lifting Bodies Technologies, LLC	Vhibe Videos LLC
H NU PHOTONICS, LLC	NightTime Productions LLC	Waterproof Kids, LLC
HAOLEWOOD PRODUCTIONS, LLC	Ninjai Gang, LLC	Wave Peak Energy LLC.
Hawaii Biotech, Inc.	NSC Partners LLC	Williams Aerospace, Inc.
Hawaii Film Partners, LLC	Oahu Productions, LLC	ZEIR Integrative Technologies, LLC
Hawaii Oceanic Technology, Inc.	Pacific Agriculture Research Co. LLC	Zero Emissions Leasing LLC
Hawaiian Mahogany Inc.	Pacific Biodiesel Inc	Zero Emissions Projects LLC
HAWAII HIGH TECHNOLOGY LLC	Pacific Biotech LLC	