Hydrogen Investment Capital Special Fund
Fiscal Year 2008-2009

Department of Business, Economic Development, and Tourism

January 21, 2009
Hydrogen Investment Capital Special Fund Fiscal Year 2008-2009: Measures Of Effectiveness Of The Renewable Hydrogen Program

Overview

Hawaii’s Hydrogen Investment Capital Special Fund, Act 240, Session Laws of Hawaii 2006, was established to provide seed capital for and venture capital investments in hydrogen initiatives. The investments are intended to develop partnerships with the private sector and in federal projects for research, development, testing, and implementation of strategic renewable hydrogen technology ventures.

This overview will report and provide detail on Hawaii’s Hydrogen Investment Capital Special Fund with regard to the following:

1. Program measures of effectiveness;
2. Expenditures and awards in fiscal year 2008-2009;
3. The program’s financial plan for fiscal year 2008-2009 to fiscal year 2011-2012; and

1. Program measures of effectiveness:

The program measures of effectiveness of the state hydrogen program are reflected in the hydrogen contract agreement, which specifies that:

- The Partnership follows a prioritization approach where hydrogen-specific technologies and projects are considered first. Seed investments target start-up companies with innovative and emerging technologies in research, development, testing and demonstration. Venture investments of interest are companies demonstrating the ability to raise matching funds to leverage the value of the Partnership’s investment;
- Broader renewable energy projects and technologies are considered second;
- The Partnership utilizes the hydrogen expertise of the Hawaii Natural Energy Institute in connection with the Partnerships selection of potential investment opportunities and focus on those investments that present opportunities for the greatest long-term return on investment;
- In evaluating potential investment opportunities of the fund the Partnership works with the following criteria:
  (a) **Team:** What is the track record and mix of technical, operational, financial and sales skills of the company’s managers?
  (b) **Product/Technology:** Does the company’s product or technology meet a need identified in the Partnership’s hydrogen industry assessment? Does the product or technology work? How reliable is it? Is the company’s intellectual property properly protected?
  (c) **Market:** Who are the customers that would buy the company’s products? How many potential customers are there? How much are the potential customers willing to spend for the products? Will the potential customers actually buy the products?
  (d) **Competition:** Which products are the company’s potential customers currently using and what would it take to get them to switch? Which companies are selling similar products? What is the value to the customer of these other products?
  (e) **Financials and Investment Returns:** How will the company make money? Are the company’s cost and revenue projections realistic? Will the company make enough money to cover the risk?
(f) **Exit Strategy:** Would the company be an attractive acquisition for a large company? Would the company be able to make a public offering of its common stock? What milestones would the company have to meet to achieve either exit?

(g) **Hawaii:** Is there a strong, strategic reason to build or locate the company in Hawaii for the long-term?

- Investment decisions are as well guided by a DBEDT advisory committee, which sets the strategic policy guidelines for investments, and a Kolohala investment committee, which makes the investments pursuant to the guidelines.

2. **Expenditures and awards to date in fiscal year 2008-2009:**

- Expenditures consisted of three (3) contract payments totaling **$2,835,625.00**, for:
  
  (a) **$1,212,000.00:** *Power Park funding* (matching fund subprogram) pursuant to section 211F-5.7(b)(1), HRS (Act 240, SLH 2006, section 7); Contract citation: section II.c., Scope of Services Attachment S1.

  (b) **$623,625.00:** *Hydrogen Fund Initial Capital Call* pursuant to Kolohala Hydrogen Fund, L.P. Limited Partnership Agreement, section 3.2(a)(i) (venture fund subprogram); as authorized under Contract, citation: section III.B., and IIIB.(6), Scope of Services Attachment S1.

  (c) **$1,000,000.00:** *Hydrogen Fund Capital Call – Investments (venture capital)* pursuant to Kolohala Hydrogen Fund, L.P. Limited Partnership Agreement, section 3.2(a)(i); as authorized under Contract, citation: section III.B., and IIIB.(6), Scope of Services Attachment S1.

- A contract for the Hydrogen Investment Capital Special Fund was awarded to Kolohala Holdings LLP effective September 4, 2008, for $8,700,000.00.

3. **The program’s financial plan for fiscal year 2008-2009 to fiscal year 2011-2012:**

<table>
<thead>
<tr>
<th>Department:</th>
<th>BED</th>
<th>Prog ID(s):</th>
<th>BED 120SI</th>
<th>Contact Name:</th>
<th>Jeffrey Pang</th>
<th>Phone:</th>
<th>587-3818</th>
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<tbody>
<tr>
<td>Name of Fund:</td>
<td>Hydrogen Investment Capital Special Fund</td>
<td>Fund type (MOF)</td>
<td>B</td>
<td>Appropriation Acct. No.</td>
<td>S-308B</td>
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<td>Legal Authority</td>
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<table>
<thead>
<tr>
<th>Financial Data</th>
<th>FY 2009 (estimated)</th>
<th>FY 2010 (estimated)</th>
<th>FY 2011 (estimated)</th>
<th>FY 2012 (estimated)</th>
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<tr>
<td>Appropriation Ceiling</td>
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<td>Beginning Cash Balance</td>
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<td>Revenues</td>
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<tr>
<td>Ending Cash Balance</td>
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<td>3,961,242</td>
<td>2,136,867</td>
<td>2,181,867</td>
</tr>
</tbody>
</table>

4. **Master plan:**

   The State’s contract with Kolohala Holdings LLP, functions as an investment agreement and master plan for the use and control of the Hydrogen Capital Special Fund. There are two kinds of distributions from the fund – cost sharing and equity investments.

   Under this agreement, the State in partnership with Kolohala Holdings LLP (Contract #57598) recently completed two investments of the Hydrogen Investment Capital Special Fund. The companies’ identities are confidential for investment purposes.