

2014 Annual Report



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION

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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

HSDC undertook a new approach to supporting the growth of a vibrant innovation sector in Hawaii. Under the banner of the HI Growth Initiative, HSDC implemented a comprehensive state wide investment effort with private sector and local government partners.

With the resources provided by the State and Federal governments, HSDC has successfully launched two accelerator funds – Blue Ventures on Oahu and the GTA Development Fund in Hawaii Island; mbloom Fund I, a seed fund based on Maui; UPSIDE II Fund, a commercialization fund for technology developed at the University of Hawaii System; and Startup Capital Ventures Fund II, a Series A fund with offices in Hawaii and Silicon Valley.

These investment initiatives, together with support for events that enable investors and entrepreneurs to connect and network, have allowed HSDC to execute on its investment strategy of developing the key building blocks of an innovation sector: entrepreneurial development, research commercialization and access to startup capital.

This year, with the establishment of Startup Capital Ventures II, Hawaii startups now have access to the full continuum of venture capital here in Hawaii. This marks a milestone in Hawaii's venture capital market. HSDC would like to thank the fund managers managing these investment funds as they have done the hard work to organize the fund, develop an investment strategy, and attract private investors to co-invest alongside HSDC.

Hawaii entrepreneurs have embraced the new opportunities available to find collaborators and investors. HSDC is pleased to note that with all the startup activity taking place over the past couple of years, Hawaii's ranking, in the 2014 State New Economy Index for the category of Economic Dynamism, improved significantly.

I would like to thank my fellow board members for their efforts over the past year to execute on our 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, Craig Nakanishi, a partner with Rush Moore LLP. We bid a warm Aloha to Assumpta Rapoza who left HSDC's Board this year after providing eight years of valuable service. Also, Jeffrey Torres resigned from the Board this past year.

As we look ahead to the challenges of 2015, 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

Developing A New Engine of Growth for Hawaii

As an economic development agency of the State, the Hawaii Strategic Development Corporation (HSDC) used its mandate to catalyze private sector capital to invest in Hawaii as the rationale to pursue a return driven, entrepreneur-focused strategy of economic development.

Launched in 2011 with a \$13 million grant from the U.S. Department of the Treasury's State Small Business Credit Initiative, the HI Growth Initiative is a State equity investment program designed to catalyze the development of an innovation ecosystem.

Subsequently, the Hawaii State Legislature provided \$2 million through the Launch Akamai Venture Accelerator program and \$6 million through the HI Growth Initiative. HSDC consolidated all of these programs under the HI Growth Initiative Investment program. The HI Growth Initiative Investment program focuses on promoting: 1) entrepreneurial development; 2) research commercialization; and 3) access to startup investment capital.

Entrepreneurial Development: HSDC partnered with local entrepreneurs to establish two venture accelerators that enhance entrepreneurial capacity in the State and create a stronger, higher quality of deal flow that can attract venture capital investments to Hawaii. HSDC supports events like investor summits, Startup Weekends and pitch events that build network density and inspire and prepare entrepreneurs to launch startups.

Research Commercialization: HSDC partnered with the University of Hawaii Foundation to launch a \$6 million research commercialization investment fund targeting technologies from the University of Hawaii System. The University has since invested significant resources towards a proof of concept center, XLR8UH, to help evaluate the commercial potential of early-stage technologies.

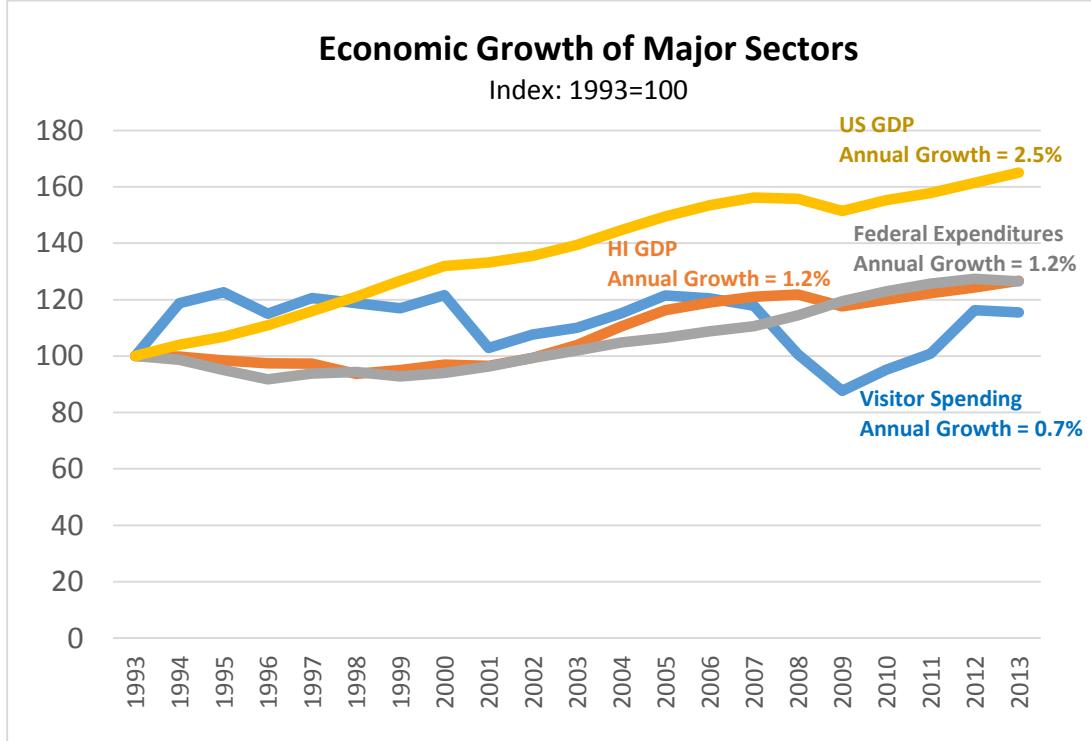
Startup Investment Capital: HSDC co-invested with private investors to create access to startup capital via a fund of funds investment program designed to catalyze investment in Hawaii startups. This effort established Hawaii based venture funds covering the continuum of startup financing needs: two pre-seed investment funds with Angel investors to invest in Hawaii-based venture accelerator portfolio companies; a \$10 million seed stage fund in partnership with private investors; and an \$18 million Series A fund in partnership with institutional investors.

Innovation-Led Economic Development

Hawaii Needs New Engines of Economic Growth

Hawaii needs new engines of economic growth. The two pillars of the economy, tourism and federal expenditures, are not forecasted to generate new growth opportunities on their own. Figure 1 shows Hawaii's economic growth rate (shown in orange) has been half of the average growth rate of the U.S. (shown in yellow) over the past twenty years as the growth in visitor spending in Hawaii has averaged only 0.7% over this period.

Figure 1: Economic Growth of Major Hawaii Sectors



A recent University of Hawaii Economic Research Organization report recently stated, "Hawaii's economy is dominated by sectors that contribute only modest productivity growth and cannot be sources of long-term improvements in the quality of life for Hawaii residents." The report concluded "if Hawaii is to improve the quality of life and increase living standards for its citizens, we must rely on industries that can both contribute to and benefit from technical change."

The Innovation Sector is the New Driver of Economic Growth

60%-70% of a region's jobs are in the local service sector. These are goods and services that are locally produced and locally consumed. These jobs, however are a result of economic growth and are not the cause of economic growth.

Figure 2: Traded/Export Sectors Drive Local Economies



A region's export/traded sectors drive job creation and long term economic growth. Hawaii's export/traded sectors, tourism and federal expenditures, account for roughly 30% of Hawaii's economy, but these sectors are not growing. In order to create high wage job opportunities for Hawaii's people, the State must invest in new sources of economic growth.

In today's global economy, the "innovation sector" is the main source of economic growth and job creation. This sector is characterized by the use of entrepreneurial human capital as inputs, and knowledge, ideas and innovation as outputs.

The innovation sector is not just information technology businesses, but now encompasses businesses in virtually all industries, including clean tech, biotech, digital media, fashion, and food industries. The common denominator for these innovation sector businesses is their ability to create valuable intellectual property and their creative use of digital technology to compete in global markets.

Hawaii has a Competitive Advantage in Growing an Innovation Sector

The supply of entrepreneurial, skilled, and educated labor is the key competitive factor for the innovation sector.

A Hawaii base of operations is no longer an obstacle to overcome for innovation sector businesses, but a key asset. Hawaii's high quality of life is an important draw for the knowledge-based workers that drive innovation sector businesses.

Hawaii has always ranked highly in the educational attainment of its workforce and its ability to attract an educated workforce. In the 2014 State New Economy Index, Hawaii's ranking in a national index of entrepreneurial activity jumped 20 spots: the best improvement of any state in the country.

The global digital communication infrastructure allows knowledge workers to work from anywhere. Proximity to markets, customers and collaborators can now be achieved with a high speed internet connection.

The HI Growth Initiative Investment Program

Successful Public-Private Partnerships

HSDC successfully leveraged Federal, State, County and private resources to execute the HI Growth Initiative Investment program.

The U.S. Department of the Treasury's State Small Business Credit Initiative provided \$13 million to pursue a comprehensive fund of funds investment program. The State Legislature provided \$8 million over two years to pursue a venture accelerator initiative and support HSDC's fund of funds investment program. The County of Hawaii partnered with HSDC to support an accelerator program on Hawaii Island. HSDC's investments are matched at each stage of deployment by private capital.

Venture Accelerators as Foundational Investments

HSDC identified venture accelerators as core components of its investment strategy. Venture accelerators are catalytic entities that empower entrepreneurs to launch new businesses by providing a collaborative workspace to engage with other entrepreneurs, access to business mentors and customers to quickly achieve market validation and investment capital to launch their businesses. For an economy that lacks a critical mass of entrepreneurial business development resources and investment capital, bringing entrepreneurs, mentors and investors together in a collaborative enterprise is an efficient community building mechanism to jumpstart an innovation ecosystem.

Continuum of Resources

While accelerators are the core components of the HI Growth Initiative, without inspiring entrepreneurs to launch new business and without the access to follow-on capital to invest in companies graduating from the programs, the initiative would not be sustainable. The HI Growth Initiative bookends the venture accelerator program at the front end with support for investor summits, Startup Weekends and pitch events that connect entrepreneurs and investors to inspire and prepare entrepreneurs to launch startups and apply to accelerator programs. At the back end, the HI Growth Initiative established pre-seed, seed and Series A funds, partnering with private investors, to create access to capital in Hawaii for startup companies, so that promising Hawaii companies have access to anchor investors in the State that can attract co-investors.



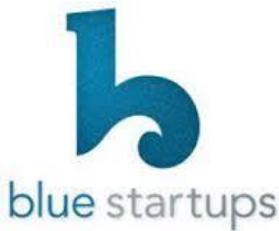
Critical Role of Hawaii Based Entrepreneurs

An ecosystem built by entrepreneurs, for entrepreneurs is the guiding principle for the HI Growth Initiative. HSDC pursues a strategy of partnering with experienced Hawaii entrepreneurs to implement HI Growth programs. These individuals are committed to building Hawaii's startup community and are able to inspire and attract the next generation of entrepreneurs. They possess robust networks that can be leveraged to attract mentors and investors to support their efforts, thus increasing the network density of Hawaii's entrepreneurial community.

Making an Impact

Accelerators

HSDC identified two entrepreneurs prepared to establish and lead venture accelerator programs.



Henk Rogers, a successful software entrepreneur, launched Blue Startups, Hawaii's first accelerator that supports capital efficient technology startups. He provided the facility for the accelerator and successfully raised the matching private investment capital needed to draw down HSDC's funds. To date, Blue Startups graduated three cohorts and a total of 23 companies, which have collectively raised over \$6 million of follow-on investment from private investors.



GVS Transmedia Accelerator just launched in May 2014 and was founded by successful Hawaii filmmaker, David Cunningham. GVS is a pioneering accelerator program that helps content developers launch businesses utilizing different digital platforms. The GVS Transmedia Accelerator was recognized and awarded a cash prize by the U.S. Small Business Administration as one of the 50 innovative accelerator programs in the country. This Hawaii County-based project attracted a sizeable grant from the Hawaii County government to establish a facility to house the program and a small production facility named Honua Studios.

Both of these accelerators have a world class roster of mentors and advisors, and a strong core of Angel investors backing the effort.

Investment Funds

HSDC again partnered with experienced entrepreneurs to raise a \$10 million seed stage fund and an \$18 million Series A fund, the first venture funds established in Hawaii in over 10 years. These fund managers are strong technically and able to work closely with entrepreneurs on operating issues with their companies. They have the credibility to attract offshore institutional capital to their funds targeting Hawaii companies.



This seed stage fund is based in Maui and was established by entrepreneurs Arben Kryeziu and Nick Bicanic. This effort has been successful in engaging the Maui County economic development organizations and providing seed capital to globally competitive Hawaii startups.



This Series A fund was established by Tim Dick and Tom Toy, experienced entrepreneurs/investors, and is of a scale that attracted Hawaii-based institutional investors to commit capital in support of Hawaii's startup community.



HSDC worked with retired partners of Silicon Valley venture funds and Hawaii institutional financial managers to establish a \$6 million investment fund, in partnership with University of Hawaii Foundation, targeting companies commercializing University of Hawaii Research. This effort was cited by the National Academies of Sciences as an example of best practices in research commercialization and was an important catalyst in encouraging the university to commit significant resources to a new technology commercialization effort, XLR8UH.

HSDC's fund of funds investment program successfully leveraged \$1.60 of private investment capital for every \$1 of HSDC capital (State + Federal sources) invested in the funds, to-date. More importantly, this effort established a continuum of investment entities resident in the State to provide access to investment capital for Hawaii startups.

Many of these fund managers are first time managers and now have the opportunity to develop a track record to allow them to raise new funds from private investors in the future. Further validation of the quality of deal flow supported by the effort came from the quality of co-investors attracted to the investment opportunities in Hawaii. These co-investors included resident Hawaii corporate and institutional investors as well as offshore venture capital investment funds.

Ecosystem Investments

The breadth and frequency of startup community events supported by the HI Growth Initiative's Connect and Network (CAN) program encouraged non-profit and for-profit groups to pursue meet-ups, pitch events, investor summits, Startup Weekends and new co-working spaces. Hawaii's corporate groups also participated in sponsoring these activities.

Figure 3: Startup Paradise VC Summit, December 2013



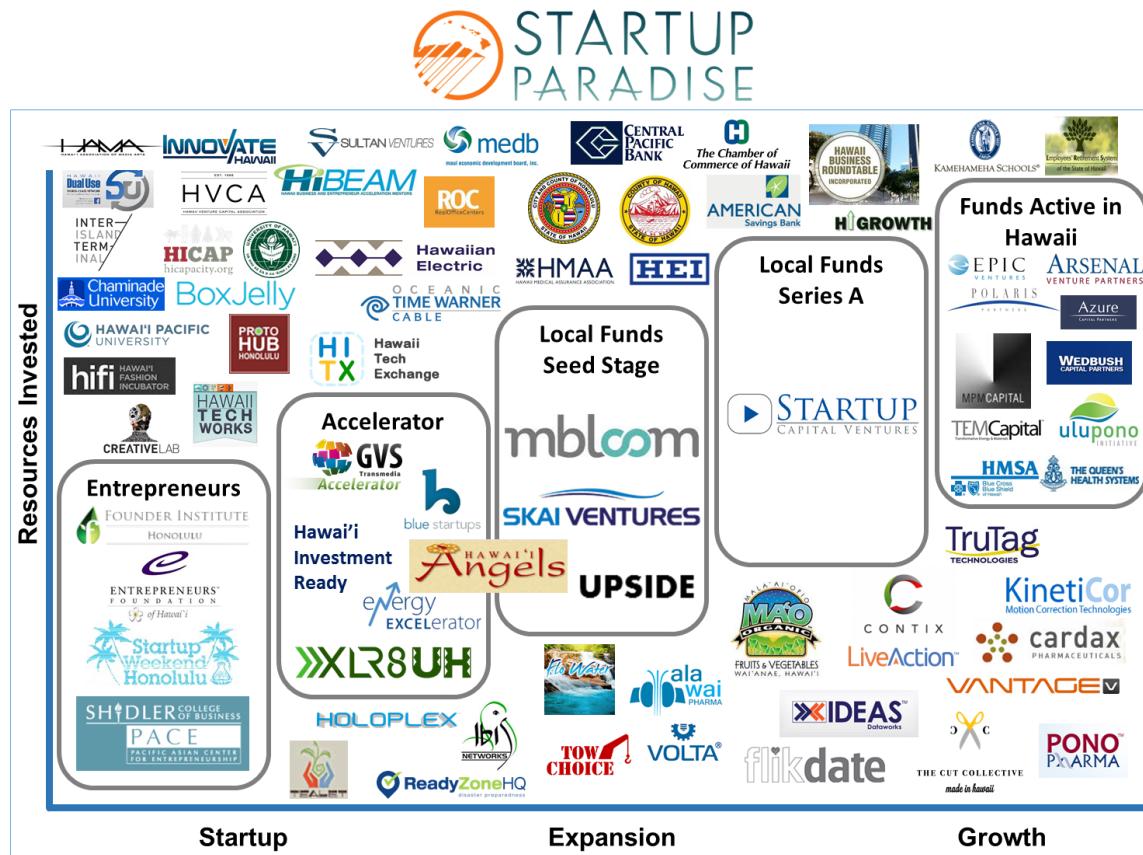
The first ever pitch competition and Demo Day in Hawaii County was held this year. Maui County successfully held its second annual Maui Tech Night this year in cooperation with Mai Tai Global, a group of Silicon Valley business and investment professionals that visit Maui each year to kite surf and network. The Hawaii Venture Capital Association was re-launched providing a forum for the community to gather each month and share its accomplishments and discuss issues.

Table 1: Events Supported by FY 2014 CAN Program

Event	Attendees	Supporters		
Startup Paradise VC Summit & Demo Day	300+	Queen's Health Systems SCV Hawaii Angels Ulupono	Arsenal Venture Partners ROC mbloom HiBEAM	Energy Excelerator Blue Startups Sultan Ventures PACE
EF Hawaii 2014 Events VC Talk Story Pupus & Pitches Angel Edition Bootstrapping	70 70 45	CPB HMAA HiBEAM UH Nobscot Corporation	Kamakura Corporation Hawaii Angels Arsenal Venture Partners Startup Capital Ventures mbloom	Azure MPM Capital Allegis Capital
Startup Weekend 2014 Events Startup Weekend Honolulu - Spring Startup Weekend Maui	100 70	HMSA mbloom Startup Capital Ventures	Nella Media Group Oceanit Purple Mai`e Foundation	JJ Dolan's Sultan Ventures Energy Excelerator
Hawaii Island Demo Day	50	Nalukai Foundation		
Maui Tech Night	250+	CrowdAlliance		
TOTAL	1,000+			

These events, the accelerator Demo days that allow the community to see the new companies launching in their communities, and the new investment funds active in the market meeting with companies inspired the community to launch the “Startup Paradise” brand as a means to create a shared identity and purpose for the Hawaii startup community.

Figure 4: Startup Paradise



The HI Growth Initiative supported this effort by focusing on key ecosystem gaps and not funding specific companies, requiring that a key metric be the return of invested capital, and supporting a portfolio of complementary investments across the continuum of a startup's development. This approach encouraged the broadest scope of community participation by highlighting the importance of precursor and successor linkages for the success of each stage and the important roles other entities need to play to support the ecosystem.

The HI Growth Initiative's early success proves that a comprehensive program to support an innovation ecosystem can succeed in Hawaii. Under the HI Growth banner, private sector, State and County groups, and the Federal government have worked collaboratively to jumpstart an innovation sector.

Hawaii may not become a significant manufacturing hub or a logistics hub; but, Hawaii can be a brain hub. The innovation sector is the best opportunity to create a vibrant, sustainable economic future for Hawaii's citizens and provide opportunities for Hawaii's young people to pursue a productive career here in Hawaii.

The table below provides a breakdown of the existing and planned allocations for the HI Growth Initiative. To-date, HSDC's investment obligations of State funds have been leveraged 8.7 times by private and federal sources.

Figure 5: HI Growth Initiative Allocations as of 6/30/2014

	STATE		FEDERAL	Total HSDC Investment	Total Private Investment
	LAVA	HI Growth	SSBCI		
Beginning Balance	\$2,000,000	\$6,000,000	\$13,168,350	\$21,168,350	
Existing Obligations:					
Blue Startups/Blue Ventures	\$700,000		\$520,000	\$1,220,000	\$1,220,000
UPSIDE			\$3,000,000	\$3,000,000	\$3,000,000
mbloom Fund I		\$2,000,000	\$3,000,000	\$5,000,000	\$5,000,000
Startup Capital Ventures Fund II		\$500,000	\$4,000,000	\$4,500,000	\$13,500,000
HBR Innovation Assets Report		\$10,000		\$10,000	\$125,000
Connect and Network Program		\$100,000		\$100,000	ongoing
GVS Transmedia Accelerator	\$700,000		\$400,000	\$1,100,000	\$1,100,000
Subtotal	\$1,400,000	\$2,610,000	\$10,920,000	14,930,000	\$23,945,000
Current Investment Initiatives:					
Energy Excelerator Follow-on Fund	\$150,000		\$1,500,000	\$1,650,000	
GTA Development Follow-on Fund		\$1,500,000		\$1,500,000	
Fashion Accelerator	\$250,000	\$350,000	\$350,000	\$950,000	
Future Innovation Reports		\$140,000		\$140,000	
Blue Ventures Fund II		\$1,000,000		\$1,000,000	
Subtotal	\$400,000	\$2,990,000	\$1,850,000	\$5,240,000	
Admin/Legal Expenses:					
Expended & Reserved	\$200,000	\$250,000	\$398,350	\$848,350	
Subtotal	\$200,000	\$250,000	\$398,350	\$848,350	
Ending Balance	\$0	\$150,000	\$0	\$150,000	

HI Growth Initiative Financial Statement

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

Figure 6: HI Growth Financial Statement

FY Ending (thousands)	9/30/2013*	6/30/2014
Beginning Balance	\$0	\$6,000
General Fund Transfer In	\$6,000	\$0
Admin/Legal Expenses		(\$13)
Capital Call for mbloom Fund		(\$594)
Capital Call for Startup Capital Ventures Fund II		(\$75)
HBR Innovation Assets Report		(\$10)
Connect and Network Program		(\$49)
Ending Balance		\$5,259
Remaining Funds Obligated to mbloom Fund		(\$1,406)
Remaining Funds Obligated to Startup Capital Ventures Fund II		(\$425)
Remaining Funds Obligated to Connect and Network Program		(\$51)
Ending Balance Less Remaining Funds Obligated	\$6,000	\$3,377

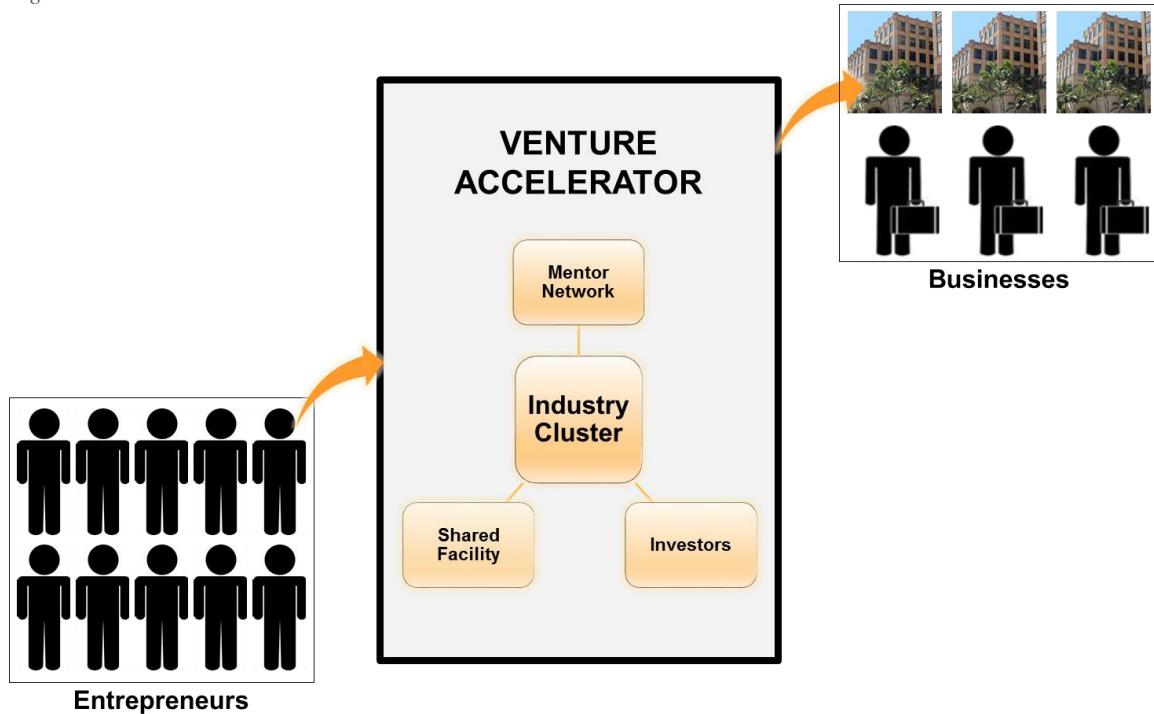
*The General Fund transfer of HI Growth funds was effective post-FY 13

LAVA Program

The Launch Akamai Venture Accelerator (LAVA) program is a \$2 million venture accelerator program with the purpose of promoting the establishment of venture accelerators in Hawaii.

HSDC identified venture accelerators as core components of its investment strategy under the HI Growth Initiative. Venture accelerators are catalytic entities that provide entrepreneurs with a structured framework to build and launch new businesses by providing a collaborative workspace to engage with other entrepreneurs, access to business mentors and customers to quickly achieve market validation, investment capital to launch their businesses and exposure to follow-on investment capital for future growth and expansion. For an economy that lacks a critical mass of entrepreneurial business, development resources and investment capital, bringing entrepreneurs, mentors and investors together in a collaborative enterprise is an efficient community building mechanism to jumpstart an innovation ecosystem.

Figure 7: Venture Accelerator Model



Since the launch of the LAVA program, two venture accelerators have been funded and successfully launched: Blue Startups, founded by successful tech entrepreneur Henk Rogers, and GVS Transmedia Accelerator, founded by successful filmmaker and entrepreneur David Cunningham.



Location: **Honolulu, HI**
Founder: **Henk Rogers**
Focus: **Software/IT**

HSDC allocated up to \$700,000 over a three year period to support the launch and operations of Hawaii's first venture accelerator, Blue Startups, founded by successful Hawaii entrepreneur Henk Rogers. In addition, \$520,000 from SSBCI funds was allocated to Blue Ventures LLLP, the venture fund established to invest exclusively in Blue Startups cohort companies. Both the \$700,000 and the \$520,000 investments were matched by private sources. Please see page 16 for more information on the SSBCI program.

Blue Startups recruits companies with scalable technology products, including internet, software, mobile, gaming and e-commerce. Their 12-week program provides selected companies with seed investment funding (\$20,000 per company in exchange for 6% equity), mentorship, access to business expertise, product testing, peer review, pitch development, co-working space, and introductions to investors.

Since its launch in 2013, Blue Startups received a total of 573 applications from around the world, selecting just 23 to participate in three cohorts to-date.

Each cohort concluded with investor Demo Days in Honolulu and Silicon Valley, attracting over 120 private investors to preview the companies. Graduates have so far collectively raised over \$6 million in follow on funding from private investors.

Blue Startups has been instrumental in catalyzing the entrepreneurial ecosystem in Hawaii by providing opportunities for Hawaii entrepreneurs to launch, grow and scale their business from Hawaii. During the Annual VC Summit in December 2013, Blue Startups leadership, together with others in Hawaii's startup community, unveiled the "Startup Paradise" brand, an effort to highlight Hawaii's emergence as an entrepreneurial innovation hub. The rapid adoption of the hashtag "#StartupParadise" can be seen when searched on any social media platform. See page 10 for more information on Startup Paradise.

Blue Startups is currently organizing an East Meets West Conference, a cross-cultural event for investors and entrepreneurs from Asia, Silicon Valley, and Hawaii, to explore the innovative and disruptive ways technology complements all facets of daily life. The event is expected to attract 300 attendees. Keynote speakers will include prominent investors from Hong Kong, China, Korea and Japan.

For more information, visit <http://www.bluestartups.com>.



Location: **Kona, HI**
Founder: **David L. Cunningham**
Focus: **Creative Content/Digital Media**

HSDC allocated up to \$700,000 over a three year period to support the launch and operations of the GVS Transmedia Accelerator, a program accepting entrepreneurs with creative content franchises that can be deployed across multiple media platforms. HSDC also committed up to \$500,000 in SSBCI funds for investment capital in an associated investment fund that invests solely in GVS Transmedia Accelerator cohort companies (\$400,000 of the \$500,000 has been matched to-date). Similar to Blue Startups, HSDC's entire commitment of up to \$1.2 million is being matched by other investors. In the case of the \$700,000 to support the accelerator's operations, the County of Hawaii provided the full match. The investment capital is being matched by private Angel investors.

GVS Transmedia Accelerator runs a 6-month program providing selected companies with seed investment capital (\$50,000 for 10% equity), co-working space, seminars and workshops, personal coaching, and access to a global network of mentors including Senior Executives of Fortune 500 companies, Film Producers of Hollywood franchises, and business experts from the entertainment industry.

The GVS Transmedia Accelerator just announced the selection of its inaugural cohort in May 2014. Of 52 applications received, 5 companies were selected for participation in the program.

Further, the Accelerator was recently recognized and awarded a cash prize by the U.S. Small Business Administration as one of the 50 innovative accelerator programs in the country.

For more information, visit <http://www.globalvirtualstudio.com/accelerator>.

LAVA Financial Statement

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

Figure 8: LAVA Financial Statement

FY Ending (thousands)	6/30/2013	6/30/2014
Beginning Balance	\$0	\$1,800
General Fund Transfer In	\$2,000	\$0
Blue Startups Investment	(\$200)	(\$200)
GVS Transmedia Accelerator Investment	\$0	(\$100)
HSDC Admin	\$0	(\$26)
Ending Balance	\$1,800	\$1,474
Remaining Funds Obligated to Blue Startups	(\$400)	(\$300)
Remaining Funds Obligated to GVS	\$0	(\$600)
Ending Balance Less Remaining Funds Obligated	\$1,400	\$574

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 Initiative 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. HSDC is currently in the process of drawing down on its third and final tranche of \$4.5 million.

In 2011, HSDC committed \$3 million of SSBCI funding to the UPSIDE II Fund, a seed-stage investment fund that invests in businesses 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 \$800,000 in private capital co-investment.

In March 2013, HSDC committed \$500,000 of SSBCI funding to Blue Ventures, a pre-seed investment fund that invests exclusively in Blue Startups portfolio companies, which was matched with \$530,000 in private capital. HSDC subsequently committed an additional \$20,000 to the fund to fully match the private capital raised by the Fund.

Additional follow-on capital of over \$6 million was raised by portfolio companies after graduating from Blue Startups. Further detail on the LAVA Program and Blue Startups is provided on page 14.

In December 2013, HSDC committed a total of \$5 million to the mbloom Fund I, \$3 million from SSBCI funds, and \$2 million from HI Growth funds. mbloom is a seed-stage investment fund based on Maui and focused on companies in the IT/software space.

In April 2014, HSDC committed up to \$500,000 of SSBCI funding to the GTA Development Fund, a pre-seed investment fund that invests exclusively in GVS Transmedia Accelerator portfolio companies (\$400,000 of the \$500,000 has been matched to-date). This commitment is being matched by Angel investors. See page 15 for additional detail on the GVS Transmedia Accelerator.

In May 2014, HSDC committed a total of \$4.5 million to Startup Capital Ventures Fund II, \$4 million from SSBCI funds, and \$500,000 from HI Growth funds. Startup Capital Ventures Fund II is a Hawaii and California-based Series A fund that provides investment capital for later stage technology companies. The total fund size is \$18 million, the balance being invested by Hawaii and mainland-based institutional investors. This investment marked a significant milestone for Hawaii's entrepreneurial tech ecosystem as it completed a continuum of financing for all phases of development, from startup, to expansion, to growth. Startup Capital Ventures taps into the pipeline of potential companies developed by existing earlier-stage funds including Blue Ventures,

mbloom, and UPSIDE II. Further, Startup Capital Ventures' presence in Hawaii opens the door for other mainland investors to consider investments in Hawaii as they have an on-the-ground partner to help watch over their investments.

SSBCI Financial Statement

Figure 9: SSBCI Financial Statement

FY Ending (thousands)	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Beginning Balance	\$0	\$4,346	\$4,083	\$3,621
Transfer In	\$4,346	\$0	\$0	\$4,346
Interest Income	\$0	\$0	\$2	\$14
Admin/Legal Expenses	\$0	(\$2)	\$0	(\$37)
Capital Call for UPSIDE Fund	\$0	(\$260)	(\$165)	\$0
Capital Call for Kinetiq	\$0	\$0	(\$150)*	\$150*
Capital Call for Blue Ventures	\$0	\$0	(\$150)	(\$150)
Capital Call for mbloom Fund				(\$495)
Capital Call for Startup Capital Ventures Fund II				(\$150)
Capital Call for GTA Development Fund				(\$160)
Ending Balance	\$4,346	\$4,083	\$3,621	\$7,139
Remaining Funds Obligated to UPSIDE	\$0	(\$2,740)	(\$2,575)	(\$2,575)
Remaining Funds Obligated to Blue Ventures	\$0	\$0	(\$350)	(\$220)
Remaining Funds Obligated to mbloom Fund	\$0	\$0	\$0	(\$2,505)
Remaining Funds Obligated to Startup Capital Ventures Fund II	\$0	\$0	\$0	(\$3,850)
Remaining Funds Obligated to GTA Development Fund	\$0	\$0	\$0	(\$240)
Final SSBCI Tranche (expected FY 2015)				\$4,477
Ending Balance Less Remaining Funds Obligated Plus Final SSBCI Tranche	\$4,346	\$1,344	\$696	\$2,226

*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, 2014, HSDC's investment portfolio totaled \$19 million in invested capital, and has returned \$5.3 million. The current carrying value of the investments is \$7.2 million.

Figure 10: HSDC Investment Portfolio FY 14

HSDC Investment Portfolio
June 30, 2014

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
Blue Ventures, LLLP Blue Startups, LLC (Chenoa Farnsworth)	49.02%	0.00%	2013	\$ 500,000	\$ 300,000	\$ -	\$ 391,455	\$ 391,455	1.3	6/30/2014
GTA Development Fund, LLC Board of Managers, GTA Development Fund, LLC (Enock Freire, Chair)	50.00%	0.00%	2014	\$ 500,000	\$ 160,000	\$ -	\$ 116,319	\$ 116,319	0.7	6/30/2014
Heaven Fund I, LLC Kolohala Holdings LLP (Robert Robinson)	100.00%	3.00%	2007	\$ 75,000	\$ 75,000	\$ -	\$ 39,006	\$ 39,006	0.5	6/30/2014
HMS Hawaii II, LLP³ HMS Hawaii Management III, LLC (Bill Richardson)	12.10%	2.50%	2004	\$ 360,612	\$ 360,612	\$ 162,581	\$ -	\$ 162,581	0.5	6/30/2014
HMS Investments³ HMS Hawaii Management III, LLC (Bill Richardson)	80.00%	3.50%	1995/2003	\$ 2,625,000	\$ 2,662,968	\$ 3,242,685	\$ -	\$ 3,242,685	1.2	6/30/2014
Hydrogen Investment Capital Special Fund Kolohala Holdings	99.00%	2.00%	2009	\$ 4,157,500	\$ 5,386,000	\$ -	\$ 4,134,105	\$ 4,134,105	0.8	6/30/2014
International Venture Fund I, L.P. International Venture Fund I, LLC (Debra R. Guerin-Bereski)	27.01%	2.50%	2000	\$ 4,500,000	\$ 4,500,000	\$ 636,371	\$ 977,199	\$ 1,613,570	0.4	6/30/2014
mbloom Fund I mbloom Ventures, LLC (Arben Kryeziu, Nick Bicanic)	49.50%	2.00%	2013	\$ 5,000,000	\$ 1,089,000	\$ -	\$ 908,244	\$ 908,244	0.8	6/30/2014
PacifiCap Hawaii, L.P. PacifiCap Group, LLC (Jeffrey K.D. Au)	99.00%	2.50%	2000	\$ 3,000,000	\$ 3,000,000	\$ 657,113	\$ 71,638	\$ 728,751	0.2	6/30/2014
Startup Capital Ventures Fund II, LP Startup Capital Ventures II, LLC (Tim Dick, Tom Toy)	24.50%	2.50%	2014	\$ 4,500,000	\$ 225,000	\$ -	\$ 181,980	\$ 181,980	0.8	6/30/2014
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	\$ 63,823	\$ 19,004	\$ 82,827	1.1	6/30/2014
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	\$ 222,509	\$ 51,638	\$ 274,147	2.5	6/30/2014
UPSIDE I University of Hawaii Foundation (Elizabeth Hokada, Jim Lally, Scott Wo)	18.75%									
UPSIDE II University of Hawaii Foundation (Elizabeth Hokada, Jim Lally, Scott Wo)	23.84%	1.50%	2004	\$ 117,693	\$ 117,693	\$ -	\$ 87,914	\$ 87,914	0.7	6/30/2014
TOTAL ACTIVE FUNDS				\$ 28,615,805	\$ 18,488,604	\$ 4,985,082	\$ 7,245,075	\$ 12,230,157		

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 Pharmaceuticals⁶ (including warrants)	N/A	N/A	2011	\$ -	\$ 250,000	\$ 287,252	\$ -	\$ 287,252	1.1	2/7/2014
BYTC Corp. (fka Neogenesis)⁴	0.25%	N/A	N/A	\$ 128,401	\$ 128,401	\$ -	\$ -	\$ -		3/15/2014
Virtual Edge Inc. (fka Atlantis Cyberspace)⁴	0.93%	N/A	N/A	\$ 117,096	\$ 117,096	\$ -	\$ -	\$ -		7/21/2014
Nellix (dba Endologix Corp.)⁵						\$ 12,294		\$ 12,294		7/28/2014
TOTAL ACTIVE EQUITY				\$ 245,497	\$ 495,497	\$ 299,546	\$ -	\$ 299,546		

TOTAL ACTIVE PORTFOLIO				\$ 28,861,302	\$ 18,984,101	\$ 5,284,628	\$ 7,245,075	\$ 12,529,703		
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2/ Valuations are as of the most recent data available from the General Partners.

3/ No financial statements were received for this reporting period. Fund manager has communicated that the fund is in liquidation mode, and the value of HSDC's position in the fund is effectively zero.

4/ Distribution from the dissolution of Keo Kea Hawaii, LP

5/ Distribution from the dissolution of Lava Ventures IV, LLC

6/ As a result of the 2/7/14 reverse merger transaction resulting in Cardax becoming a publicly-listed company (CDXI), HSDC holds warrants to purchase 62,517 shares of CDXI at \$1.00/share. Trading price of CDXI shares on 6/30/14 was \$1.00.

Below are descriptions of HSDC's active investment portfolio with the amount of capital HSDC has invested in each fund as of June 30, 2014:

Hawaii-Based Venture Capital Funds

HMS Hawaii III; \$0.36 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. Fund Manager has communicated this fund is in liquidation mode.

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. Fund Manager has communicated this fund is in liquidation mode.

Hydrogen Investment Capital Special Fund; \$5.39 million capital contributed

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. HSDC holds a 99% limited partner interest in this fund.

mbloom Fund I, LP; \$1.1 million capital contributed

Initial investment in January 2014. HSDC holds a 49.5% limited partner interest in this Maui-based venture capital partnership. This is a seed fund that will invest in a portfolio of tech-based companies over the next three to five years. The investment portfolio thus far consists of private equity investments in Vantage Sports, ReadyCart, Flikdate, Ozolio and an undisclosed company.

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. Fund Manager has communicated this fund is in liquidation mode.

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. Fund Manager has communicated this fund is in liquidation mode.

Startup Capital Ventures Fund II, LP; \$0.23 million capital contributed

Initial investment in June 2014. HSDC holds a 24.5% limited partner interest in this Hawaii and California-based venture capital partnership. This is a Series A fund that will invest in a portfolio of tech-based companies over the next three to five years. The investment portfolio thus far consists of a private equity investment in PlayFab.

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.

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.

Funds to Support Hawaii Angels

Blue Ventures LLLP; \$0.3 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. Portfolio companies thus far include: FloWater, Minded Gifts, Pharmly, Tealet, Tow Choice, SurroundsMe, Wicked Loot, Volta, Gibi, Happy Hour Pal, LiveSift, Ritify, eSEE/RESCUE, Workers on Call, XMAP, Comprendio, Cultur, Focus Opus, ingollow, JUICIES, Quic, Vantage Sports and Yuru.

GTA Development Fund, LLC; \$0.16 million capital contributed

Initial investment in June 2014. HSDC holds a 50% membership interest in this investment fund. Co-members in the fund are Hawaii and mainland-based Angel investors. The fund invests exclusively in the portfolio companies of the GVS Transmedia Accelerator. Portfolio companies thus far include: Hawaii Virtual

Vacations, Hawaii Wild Side, Jumping Flea Productions, Kite Kids, and Ring of Fire Films.

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.

Funds to Support Technology Transfer from the University of Hawaii

UPSIDE I; \$0.12 million capital contributed

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., Kuehnle Agrosystems Inc., and Ala Wai Pharma Inc.

UPSIDE II; \$0.43 million capital contributed

Initial investment November 2011. HSDC holds a 50% 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 startup 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: Cardax Pharmaceuticals, BYTC Corp. (Neogenesis), Virtual Edge Inc. (Atlantis Cyberspace), and Endologix Corp. (Nellix).

Financial Report

Revolving Fund; \$8,040,674

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

Figure 11: Revolving Fund Financial Report

FY Ending (thousands)	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Beginning Balance	\$313	\$407	\$269	\$1,681
Interest Income/Partnership Distributions	\$207	\$2	\$1	\$1,662*
Investments	\$0	\$0	(\$400)*	(\$969)
Operating Expenditures	(\$113)	(\$141)	(\$189)	(\$333)
General Fund Transfer In	\$0	\$0	\$2,000	\$6,000
HSDC Revolving Fund Balance	\$407	\$269	\$1,681	\$8,041
HSDC Capital Fund, LLC				
Cash awaiting investment	\$832	\$614	\$1,370	\$135

*\$200,000 was returned due to an anticipated investment not being consummated. Funds were re-deposited in FY 2014 and accounted for in the Interest Income/Partnership Distributions category

Special Funds; \$7,297,418

Hydrogen Investment Capital Special Fund; \$159,450. 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.

State Small Business Credit Initiative; \$7,137,968. 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. The second tranche of \$4,345,556 was received November 2013. The third and final tranche for the balance of the award is currently in process of being drawn down by HSDC.

Figure 12: Special Fund Financial Report

FY Ending (thousands)	6/30/2011	6/30/2012	6/30/2013	6/30/2014
Hydrogen Investment Capital Special Fund	\$2,309	\$1,098	\$159	\$159
SSBCI Venture Capital Investment Program	\$4,346	\$4,083	\$3,621	\$7,139

HSDC's Board of Directors

June 30, 2014

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

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Richard Lim
Director
Department of Business, Economic
Development & Tourism

Corporate Staff & Contact

Hawaii Strategic Development Corporation
P. O. Box 2359
Honolulu, Hawaii 96804

Karl K. Fooks
President
Email: karl.fooks@dbedt.hawaii.gov
Tel: (808) 587-3830

Lauren Primiano
Associate
Email: lauren.m.primiano@dbedt.hawaii.gov
Tel: (808) 587-3832

