

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
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**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY
AFFAIRS
TESTIMONY REGARDING HB 596
RELATING TO A TECHNOLOGY MASTER PLAN**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 17, 2009
TIME: 8:30AM
ROOM: 312

This measure, among other things, utilizes an indeterminate amount of money from the Tax Administration Special Fund to finance the High Technology Development Corporation task force.

The Department of Taxation (Department) **opposes** this measure.

This measure utilizes revenues collected from high tech comfort ruling and certification fees to fund this bill's purpose.

This legislation has no relationship to taxation and the Department opposes using taxpayer fee revenues for projects unrelated to tax. The Tax Administration Special Fund is used to offset the costs of administering the taxpayer services of providing rulings and certificates. Taking these funds away for purposes unrelated to the taxpayer's services will burden the Department and the taxpayers that rely on these services.

Should the measure be amended to focus on tax matters, the Department may reconsider its position; provided sufficient revenues remain for the Department's administration of these taxpayer services.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
**COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS,
& MILITARY AFFAIRS**
Tuesday, February 17, 2009
8:30 a.m.
State Capitol, Conference Room 312

in consideration of
HB 596
RELATING TO A TECHNOLOGY MASTER PLAN.

Chair McKelvey, Vice Chair Choy, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) understands the intent of HB 596 which would establish a task force to develop a state master plan for high technology. This bill is similar to HB 610 which would establish a task force to develop the Hawaii state science and technology plan. The Department acknowledges that these measures have merit; however, given the current fiscal difficulties, it would not be prudent to pursue enactment at this time.

The Hawaii Science & Technology Council recently released a report on Hawaii's science and technology (S&T) industry sectors produced by a study conducted in collaboration with DBEDT's Research and Economic Analysis Division, the University of Hawaii, the Research Corporation of Hawaii, the four county economic development boards and others.

These data indicate that:

- The 3.3 % annual growth rate of Hawaii's private technology companies between 2002 and 2007 outpaced the state's overall 2.5% economic growth for the same period.
- Hawaii's science and technology companies and government entities created 31,106 jobs, or 3.6 % of the state's employment, with 77% of the jobs in the private sector.
- The science and technology establishments contributed \$3 billion to the Hawaii economy in 2007, 5% of the state's GDP.

These remarkable numbers underscore the potential of Hawaii's S&T industry sectors to contribute to an economy based on innovation and the development of human capital. They provide a strong argument for sound planning that involves collaboration between industry, academia and government. Another strong argument is that many federal grants that support the research efforts of the University of Hawaii require the proposals to align with the state's science and technology strategic plan. Recognizing that Hawaii does not have a current plan, the Hawaii Statewide EPSCoR (Experimental Program to Simulate Competitive Research) Committee appointed a special sub-committee to prepare a plan by the end of 2009 to be submitted to the Legislature and the Governor.

The subcommittee is co-chaired by Dr. Michael Crosby, Executive Director of the National Science Board who is currently on loan to the University of Hawaii at Hilo, serving as the Interim Vice Chancellor for Research. The other co-chairs are Kevin Kelly, UH System Managing Director for the EPSCoR grant from the National Science Foundation, and Elizabeth Corbin, Manager of DBEDT's Science & Technology Branch. The subcommittee includes representatives from industry, academia and government and will solicit input from a broad range of stakeholders.

Thank you for the opportunity to provide these comments.

PACIFICAP
GROUP

PACIFICAP GROUP, LLC
820 Miliuni Street, Suite 600
Honolulu, HI 96813
Direct: 808.237.5388 Fax: 808.537.2188

February 15, 2009

To: EBMtestimony@Capitol.hawaii.gov

*Testimony for Hearing before the
House Committee on Economic Revitalization, Business and Military Affairs
Tuesday, February 17, 2009, 8:30 am*

*State Capitol, Conference Room 312
415 South Beretania Street
Honolulu, Hawaii 96813*

*Re: Testimony in Opposition to HB 596
Relating to A Technology Master Plan*

Chair McKelvey, Vice-Chair Choy, and Committee Members:

Thank you for the opportunity to submit testimony in OPPOSITION to HB 596, which relates to a technology master plan.

I am Jeff Au, Managing Director and General Counsel of PacificCap, Hawaii's largest locally based venture capital firm. Since 2000, our firm has invested in more than two dozen Hawaii technology companies.

I oppose this bill because it creates a redundant and wasteful process for evaluating Act 215, Session Laws of Hawaii 2004 (commonly known as "Act 221") under the jurisdiction of the High Technology Development Corporation ("HTDC") and the Department of Business Economic Development and Tourism ("DBEDT"), rather than the Department of Taxation ("DoTax").

As many of you may know, after extensive discussions, numerous hearings and numerous testimonies submitted from the business community, the Legislature determined in 2007, with the passage of Act 206, Session Laws of Hawaii 2007, that DoTax, and not DBEDT or HTDC, is the proper agency to evaluate Act 221 tax incentives.

As a result, Act 206 now statutorily requires DoTax to review and evaluate Act 221 on an annual basis. This resulted in more than **135 pages** of data and analysis of Act 221 published by DoTax in 2008, which required at least **ten** DoTax staff members to prepare. To have a new task force, DBEDT and/or HTDC create another redundant study of Act 221 would be a waste of taxpayer money in the middle of the State's very severe budget crisis.

As concluded by the Legislature with the passage of Act 206 in 2007, DBEDT and HTDC do not have any professional staff with sufficient understanding of tax law to be qualified to fully understand and evaluate Act 221 and other tax incentives. Providing DBEDT, HTDC or a new

task force with access to confidential tax records could also violate federal and state laws protecting taxpayer confidentiality.

Before spending any more taxpayer dollars on another DBEDT/HTDC study of Act 221, I respectfully suggest that you ask each of the DBEDT and HTDC staff members who testify in favor of this bill whether he or she has even read the more than 135 pages of Act 221 data and analysis published by DoTax in 2008 and specifically if, how and why he or she thinks DBEDT, HTDC or a new task force could prepare a better Act 221 study than DoTax's existing Act 206 studies.

I also respectfully suggest that before appropriating anymore taxpayer dollars to DBEDT or HTDC, your Committee first review and evaluate the value of the study of the social and economic benefits of high technology initiatives that the Legislature mandated DBEDT to conduct pursuant to Act 148, Session Laws of Hawaii 2007, which required DBEDT to *"collect, analyze and disseminate appropriate data to measure the growth industries that have the potential to transform Hawaii's economy and to accelerate their development into more robust pillars of Hawaii's society,"* and for which the Legislature appropriated to DBEDT \$400,000 and two new full time staff positions in 2007.

I also respectfully suggest that your Committee ask DBEDT and HTDC to provide to your Committee with a specific analysis and evaluation of the costs, benefits, effectiveness and specific results of similar tasks forces and committees that already have been convened and managed by DBEDT and/or HTDC at taxpayer expense, including the Economic Momentum Commission and the Governor's Innovation Task Force. How specifically would a new "High Technology Industry Task Force" formed by this bill be different, more cost effective and yield more tangible positive results?

Perhaps what is really needed at this point is a study of the costs, benefits and effectiveness all of the past task forces, committees, studies and programs initiated, conducted and managed by DBEDT and HTDC over the past several years relating to high technology and economic development. Such a study should be done with existing DBEDT and HTDC resources and should not require additional appropriations of additional taxpayer dollars at this time of serious budgetary shortfalls.

Thank you very much for allowing me to submit this testimony today.

Respectfully submitted,

Jeffrey K. D. Au
Managing Director and General Counsel
PacifiCap Group, LLC



HOUSE BILL 610: RELATING TO SCIENCE & TECHNOLOGY
***HOUSE BILL 596: RELATING TO A TECHNOLOGY MASTER PLAN**

DATE: February 17, 2009
8:30 a.m., Conference Room 312

TO: House Committee on Economic Revitalization, Business and Military Affairs
Representative Angus McKelvey, Chair
Representative Isaac Choi, Vice Chair

FROM: Lisa H. Gibson
President
Hawaii Science & Technology Council

RE: Testimony in Strong Opposition to HB610 and HB596

Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify on these bills. The Hawaii Science & Technology Council (HISciTech) strongly opposes both HB610 and HB596. These bills would empower DBEDT and HTDC to evaluate Act 221. HISciTech does not support empowering DBEDT or HTDC to evaluate Act 221/215. Act 206 already requires that the Department of Taxation provide an annual review of Act 221/215. We do not support empowering DBEDT to have access to confidential tax returns rather we support that the jurisdiction remain with DoTax.

With regard to conducting a science and technology plan for the state, we support the intent and need for a science and tech plan for the state. However, we do not support that either DBEDT or HTDC administer this process. Rather, we support the EPSCoR process already underway under the leadership of the University of Hawaii.

The Hawaii Science & Technology Council (HISciTech) is a 501(c)6 industry association with a 28-member board. HISciTech serves Hawaii companies engaged in ocean sciences, agricultural biotechnology, astronomy, defense aerospace, biotech/life sciences, information & communication technology, energy, environmental technologies, and creative media.

Thank you for the opportunity to testify on this bill.

Lisa H. Gibson
President

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS, &
MILITARY AFFAIRS**
Tuesday February 17, 2009
8:30 AM
State Capitol, Conference Room 312

In consideration of
HB 596 RELATING TO HIGH TECHNOLOGY DEVELOPMENT CORPORATION.

Chair McKelvey, Vice Chair Choy and Members of the House Committee on Economic Revitalization, Business, & Military Affairs.

The High Technology Development Corporation (HTDC) supports the intent of this measure which creates a high technology industry task force attached to the high technology development corporation for the purpose of developing a state master plan for high technology industry; however, given the current fiscal difficulties, it would not be prudent to pursue enactment at this time.

We agree that the last statewide master plan developed in the early to mid-1990's is outdated and there are more industry and community stakeholders today who should be involved in a new action plan. We also agree with the language in this measure that requires a review of the plan on a regular basis to determine accountability and reach consensus among stakeholders on the upcoming action plan period. While HTDC was created in 1983 by the State Legislature to facilitate the growth and development of the commercial high technology industry in Hawaii, we are happy to work with all concerned parties or defer to a task force outside of HTDC in the development of a new master plan.

Thank you for the opportunity to submit testimony.

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 16, 2009 6:52 AM
To: EBMtestimony
Cc: strsws@mac.com
Subject: Testimony for HB596 on 2/17/2009 8:30:00 AM
Attachments: 221-215 Slideshow.pdf; 221-215 Handouts.pdf

Testimony for EBM 2/17/2009 8:30:00 AM HB596

Conference room: 312
Testifier position: comments only
Testifier will be present: Yes
Submitted by: Shan Steinmark
Organization: Strategic Transitions Research
Address: 66 Queen Street - #3501 Honolulu, HI
Phone: 8084639590
E-mail: strsws@mac.com
Submitted on: 2/16/2009

Comments:

Aloha Chair McKelvey & Vice Chair Choy,

I am attaching both slideshow & handout versions of my testimony on HB 596 & HB 610.

I will also be present at the EBM hearing on Tuesday February 17th at 8:30 a.m.

At that time I will present clarifying comments on the following:

1. How to Best Assess Act 221-215
 2. Industry-Government Trust & Collaboration - Past-Present-Future
 3. Assessment of Hawaii's Innovation Pipeline & the Innovation Economy
 4. Cost-Benefit Analysis of Act 221/215
 5. The Unsung Value of LOCAL IP in Science & Technology
 6. The Critical Need in Hawaii for Economic Re-Vitalization, Investment into the Innovation Economy & Pursuit of Strategic Growth Opportunities
- Mahalo for your akamai kokua, Shan Steinmark

ACT 221/215
COST-BENEFIT ANALYSIS
&
RECOMMENDATIONS
for
CHANGE

Shan W. Steinmark, Ph.D.
Strategic Transitions Research

1/27/09

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1

BACKGROUND & DISCLOSURES

- Hawaii Science & Technology Council - Board of Directors / CEO Forum Designer
- Hawaii Angels - Executive Board, Due Diligence Shepherd & Equity-Side Investor
- Hawaii Biotech - Board Observer
- Kuehnle AgroSystems - Board of Directors
- Pipeline Micro - Former Board of Directors
- Talk-Story Productions - Former Advisor
- Hnu Photonics, Hnu Defense, Hnu Energy - Pre-Board Advisor
- Pacific Asia Center for Entrepreneurship (Shidler College of Business) - Advisory Board
- Governor's Hawaii Innovation Council - Subcommittee on Capital Formation
- Governor's Maui Council of Advisors
- Strategic Transitions Research - Founder (1973)
- **40 Years = Consultant Enhancing Individual, Team & Organization Effectiveness**
- **Primarily with R&D / Growth Businesses - From Start-Ups to Fortune 500**

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2

COMMON GROUND

ROLE:

- ASK TOUGH QUESTIONS
- TELL TRUTH TO POWER
- COLLABORATE TO SOLVE PROBLEMS

ANALYZE

- SORT MYTH FROM FACT
- STUDY CAUSE-EFFECT
- LEARN BEST PRACTICES

LEAD, LEAD, LEAD

- SET DIRECTION
- BUILD COALITIONS
- MOTIVATE & INSPIRE

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3

COST-BENEFIT ANALYSIS for ALL

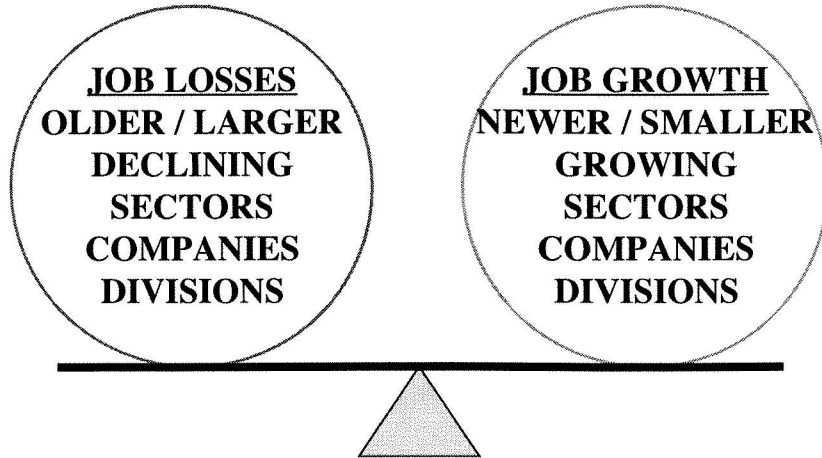
	PROS	CONS	CHANGE
Agriculture			
Real Estate			
Tourism			
Military			
Technology			

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4

CHRONIC CHALLENGE in AMERICA

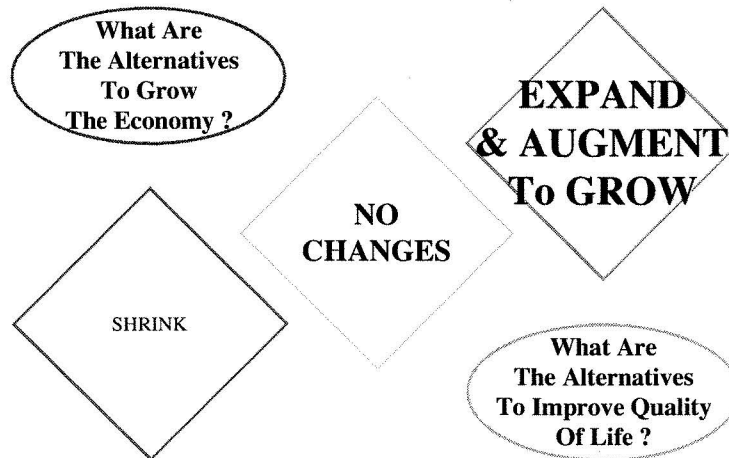


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5

TOUGH CHOICES



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6

HOW TO SURVIVE & THRIVE

	<i>SURVIVE</i>	<i>THRIVE</i>
“UP” ECONOMY	<i>Regularly Manage Non-Performers</i>	<i>Steadily Pursue Strategic Growth Opportunities</i>
“DOWN” ECONOMY	<i>Aggressively Manage Non-Performers</i>	<i>Urgently Pursue Strategic Growth Opportunities</i>

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7

REAL \$ GROWTH via INNOVATION

???'S for HAWAII AMIDST GLOBAL COMPETITION:

- HOW DO WE GROW START-UP BUSINESSES ?
- HOW DO WE GROW THE SCI-TECH INDUSTRY ?
- HOW DO WE GROW AN INNOVATION ECONOMY ?

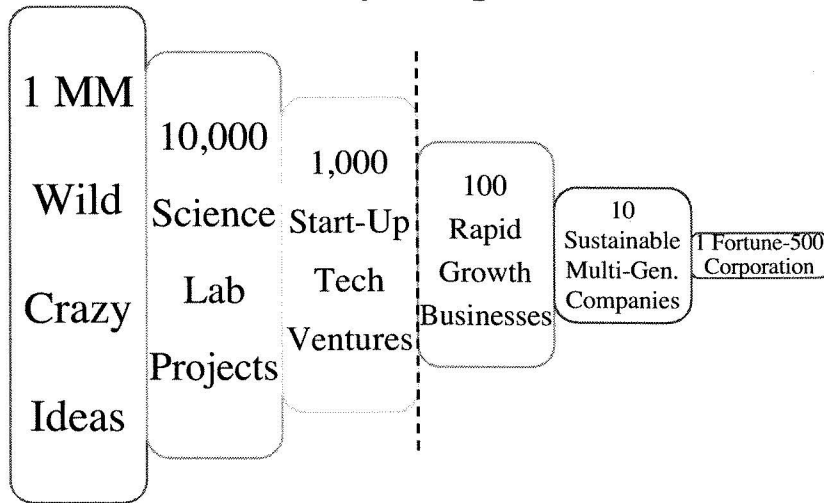
**UNIVERSAL ANSWER =
MORE / BETTER / FASTER ...
TECHNOLOGY, TALENT & CAPITAL !!!**

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8

Innovation Economy - Requires "PIPELINE"

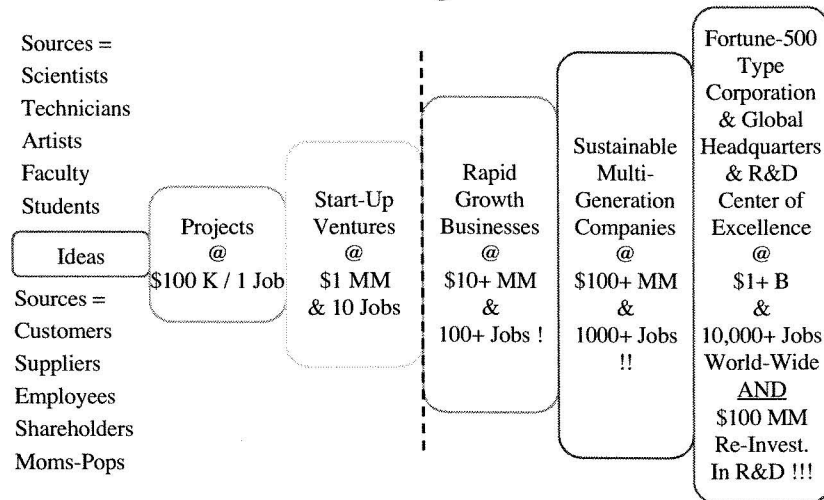


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9

Success = Self-Sustaining GROWTH ENGINE



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10

THE JOB CREATION PROCESS

MUST BUILD & SUSTAIN
INNOVATION PIPELINE
& GROWTH ENGINE !!!

MOST JOB GROWTH
OCCURS in the LATER STAGES
of INNOVATION

MOST
REAL ECONOMIC GROWTH
BEGINS WITH
INNOVATION

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11

MORE-BETTER JOBS - HOW ?

Build & Sustain a Full Innovation Pipeline in HI

Develop & Retain Local Creative / Tech Talent

Enhance Support for Commercialization

Provide Incentives to Attract Clean Manufacturing

Develop Strategic World-Class Centers of Excellence

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12

THE VALUE of LOCAL TALENT

	LOCAL Inventors Owners	LOCAL Managers	LOCAL Employees
HAWAII <u>WITH</u> ACT 221/215	HIGHER %	HIGHER %	HIGHER #’s NOW & FUTURE
HAWAII <u>WITHOUT</u> ACT 221/215	lower %	lower %	lower #’s now & future

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13

PEOPLE



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14

HI Strategic Growth Opportunities

TROPICAL BIO-TECH

TROPICAL AGRICULTURE

TROPICAL OCEAN-AQUACULTURE

DIVERSE CULTURE / INTEGRATION / CREATIVE ARTS

RENEWABLE ENERGY GENERATION

NATIONAL DEFENSE / SECURITY

ASTRONOMY DUAL-USE

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15

MORE-BETTER CAPITAL - HOW ?

Pursue Hawaii's Strategic Growth Opportunities

Provide Better PR for Success Stories in Hawaii

Attract More Mainland / Pacific Rim VC Capital

Link to Federal "Shovel-Ready" / "Ready-to-Go"

Develop Strategic World-Class Centers of Excellence

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16

THE VALUE of LOCAL CAPITAL

	LOCAL Investment	LOCAL R.O.I.	LOCAL RE-Invest. ENGINE
HAWAII WITH ACT 221/215	HIGHER \$\$\$\$\$	HIGHER \$\$\$\$\$	HIGHER \$\$\$\$\$
HAWAII WITHOUT ACT 221/215	lower \$	lower \$	lower \$

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17

REVENUES - MYTHS VS. FACTS

	<i>Myths</i>	Probabilities
<u>EXPAND</u> ACT 221/215	More Cost Less Tax Rev.	More Benefit More Bus. Rev.
<u>SHRINK</u> ACT 221/215	Less Cost More Tax Rev.	Less Benefit Less Bus. Rev.

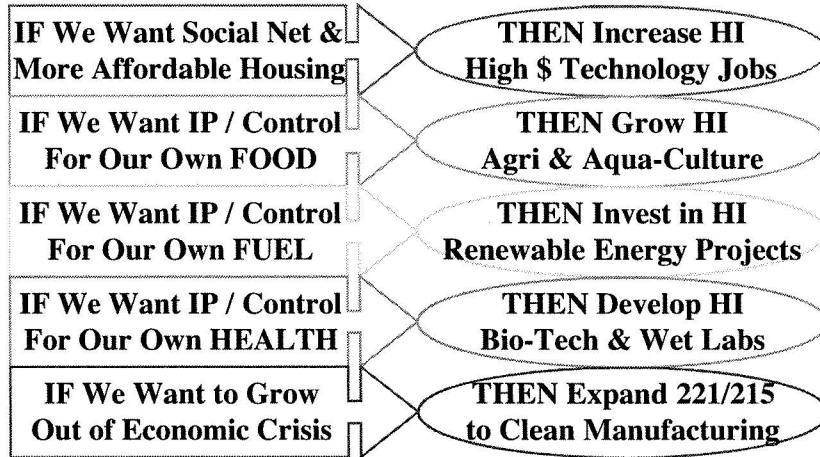
**NOTE: TAX REV. DEPENDENT on BUSINESS REV.
& TAX LIABILITY DEPENDENT on TAX ADVICE**

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18

FIXING PROBLEMS - CASE EXAMPLES

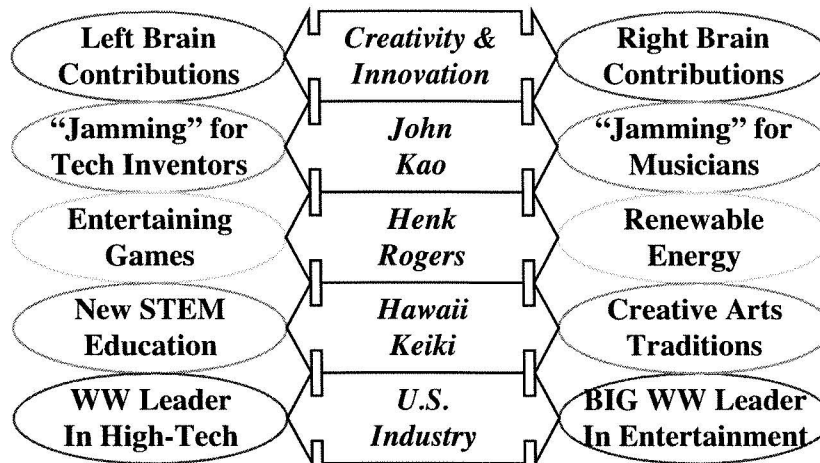


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19

NEED IP in BOTH SCIENCES & ARTS



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20

SUSTAINABILITY - WHEN & HOW ?

	Land-Use Economy	Innovation Economy
HAWAII <u>WITH</u> ACT 221/215	<u>Small Footprint</u> Use More Energy Sources Than Land	<u>Local Sustainable</u> Technology for Food/Fuel/Health & Higher Wages
HAWAII <u>WITHOUT</u> ACT 221/215	<u>Large Footprint</u> Lower Wages & More Need For Social Net	Much Slower Behavior Change & Less Progress Toward Future

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21

LOCAL IP = LOCAL ENGINE / CONTROL

	IMPORT	EXPORT
HAWAII <u>WITH</u> ACT 221/215	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	<u>LOCAL Ideas / IP</u> & Technology for Food-Fuel-Health & Many Products
HAWAII <u>WITHOUT</u> ACT 221/215	<u>Others' Ideas / IP</u> & Technology for Food-Fuel-Health & Most Products	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$

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22

CRISIS = DANGER & OPPORTUNITY

CHALLENGES:

- NATIONAL FINANCIAL CRISIS
- STATE TOURISM & BUDGET CRISES
- THREAT to LOCAL JOBS, HOMES & “SAFETY NET”

SOLUTION

- BUILD on SUCCESS
- DEVELOP LOCAL ASSETS
- USE GROWTH ENGINE

NOT

- Destroy Work-in-Progress
- Succumb to Fear
- Shrink

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23

INVEST
in
HAWAII
NOW!

1/27/09

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24

From: James Karins [jkarins@yahoo.com]
Sent: Monday, February 16, 2009 3:39 PM
To: EBMtestimony
Subject: Testimony on HB610 and HB596

HOUSE BILL 610: RELATING TO SCIENCE & TECHNOLOGY MASTER PLAN

HOUSE BILL 596:

RELATING TO A TECHNOLOGY

DATE: February 17, 2009
8:30 a.m., Conference Room 312

TO: House Committee on Economic Revitalization, Business and Military Affairs
Representative Angus McKelvey, Chair
Representative Isaac Choi, Vice Chair

FROM: James P. Karins
President and CEO
Pukoa Scientific

RE: Testimony in Strong Opposition to HB610 and HB596 Aloha Chair, Vice Chair, and Members of the Committee:

Thank you for the opportunity to testify on these bills. Pukoa Scientific strongly opposes both HB610 and HB596. These bills would empower DBEDT and HTDC to evaluate Act 221. Pukoa Scientific does not support empowering DBEDT or HTDC to evaluate Act 221/215. Act 206 already requires that the Department of Taxation provide an annual review of Act 221/215. We do not support empowering DBEDT to have access to confidential tax returns rather we support that the jurisdiction remain with DoTax.

With regard to conducting a science and technology plan for the state, we support the intent and need for a science and tech plan for the state. However, we do not support that either DBEDT or HTDC administer this process. Rather, we support the EPSCoR process already underway under the leadership of the University of Hawaii.

Pukoa Scientific is a 15 person company started in 2004 specializing in the interpretation of image and signal data to identify objects, threats or targets. Pukoa Scientific is in the dual use sector. Our average salary is over \$100,000, 12 of our 15 people are full time and 11 of those 12 reside in Hawaii. Of the 11 full time staff in Hawaii, 8 graduated from high schools in Hawaii, 10 graduated from University of Hawaii or Hawaii Pacific University and at least 4 worked on the mainland prior to finding work in Hawaii. We currently generate more than \$2.5M in revenue and pay over \$1.5M in salaries.

From a historical perspective, if it weren't for Act 215/221 Pukoa Scientific wouldn't have made it. We utilized the investment tax credits to get started and to provide working capital, and we are now utilizing the R&D credit to develop commercial spin-offs for new sustainable companies.

Thank you for the opportunity to testify on this bill.

James P. Karins
President and CEO
Pukoa Scientific

Cellular Bioengineering, Inc.

Invent. Disrupt. Inspire.

HB610: Relating to Science & Technology
HB596: Relating to a Technology Master Plan

Date: February 17, 2009
Time: 8:30 a.m.
Place: Conference Room 312

To: House Committee on Economic Revitalization, Business and Military Affairs
The Honorable Angus McKelvey, Chair
The Honorable Isaac Choi, Vice Chair
From: Michael J. Coy, Vice President, Cellular Bioengineering, Inc. (CBI)

Re: Testimony in Strong Opposition to HB610 and HB596

Aloha Chair, Vice Chair and Members of the Committee:

Thank you for the opportunity to testify on these bills. CBI strongly opposes both HB610 and HB596. These bills would empower DBEDT and HTDC to evaluate Act 221. CBI does not support empowering DBEDT or HTDC to evaluate Act 221/215. CBI does not support empowering DBEDT to have access to confidential tax returns; rather, CBI supports that the jurisdiction remain with DoTax.

With regard to conducting a science and technology plan for the State, CBI supports the intent and need for a science and tech plan for Hawaii. However, CBI does not support that either DBEDT or HTDC administer this process. Rather, CBI supports the EPSCoR process already underway under the leadership of the University of Hawaii.

With help from Act 221, CBI has grown from 2 employees to 30; acquired technologies from leading scientific institutions around the world; harnessed a robust portfolio of over 25 patents and patent applications; developed the world's most advanced artificial cornea technology which holds the promise of restoring vision to 10 million people around the world; commercialized from concept to market a new generation of green technology for surface cleaning and decontamination; brought talented kama'āinas back home to work, thrive, and pay taxes; and demonstrated to the world that it is entirely possible for a Hawaii-based technology company to have impact that is truly global. Without Act 221, many of these feats could not possibly be accomplished in Hawaii.

Sincerely,



1946 Young Street, Suite 288 · Honolulu, Hawaii 96826
Ph: 808.949.2208 · Fax: 808.949.2209
www.cellularbioengineering.com