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# Pacific Biodiesel deal generates award

## Venture capital still scarce in Hawaii

January 28, 2011

By HARRY EAGAR, Staff Writer

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For the second year in a row, Pacific Biodiesel has won the Venture Capital Deal of the Year Award from the Hawaii Venture Capital Association.

Kelly King, vice president of Pacific Biodiesel, said the deal evolved quickly after she and her husband, Bob, and their partners decided late last year to double the output of a new refinery on the Big Island. They were able to find the equity investment "in three days."

The total was a little under \$4 million, and King said the fact that that was enough to win the award is an indication of how tight venture capital is.

Bill Spencer, president of the venture capital group, said the small amount reflects a number of problems. First among them: "Hawaii has always been venture capital starved. Mainland venture capitalists don't want to travel much more than 50 miles to attend a board of directors meeting."

Pacific Biodiesel was helped by the fact that it was eligible for a state capital investment tax credit that was going to expire at the end of last year.

Two other businesses, Adama Materials and Innovasc, also received deal of the year honors at a luncheon in Honolulu on Thursday.

"Last year's economic situation made it a particularly tough year to raise money," Spencer said. "The end of Act 221 and the attempted changes to the law created a lot of uncertainty for investors."

"These companies overcame the odds and raised a significant amount of private equity."

David Fisher, a Maui business consultant who is on the board of the Hawaii Venture Capital Association, said "straightening out the regulatory process" is the biggest thing the state can do to help encourage investment in high-technology businesses. He was heartened by Gov. Neil Abercrombie's announcement in the State of the State message this week that he wants to streamline the Public Utilities Commission.

"We all want everything to be safe, and we don't want tax credits used for scams," said Fisher in a telephone interview from the awards ceremony. At the same time, investors need to know whether the answer is yes or no.

He said he hopes that despite its thin bank accounts, the state will find funds to put into regulatory changes, both streamlining and enforcement.

Fisher is a consultant to Pacific Biodiesel. He said he was speaking generally, and not specifically about his client.

Kelly King said that the 5 million-gallon-a-year Big Island refinery is a good energy investment, even without subsidies.

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"If petroleum subsidies were cut, we'd be golden," she said.

In his State of the Union message, President Barack Obama called for ending the subsidies. Fisher said he supported the idea, "but I'll believe that when I see it."

Fisher said he basically agrees with Abercrombie about investing in the state work force, which is demoralized and under pressure from furloughs and cost-cutting.

Spencer said that besides the indifference of Mainland investors, island businesses' second problem is local neglect of opportunities.

"Hawaii has a higher proportion of millionaires than any other state, it has landowners who earn huge revenues from land." But they don't want to put their net worth to work "in our own backyard."

Even the Employees Retirement System, when it was given authority to place up to 3 percent of its assets in local ventures, has not taken advantage of that.

"There are lots of great ideas" hunting for support, Spencer said.

King said the latest refinery will, like the original on Maui, turn kitchen grease into diesel fuel, but it also will receive raw oil from farms started for that purpose. One operator has committed to planting 250 acres of jatropha, with the possibility of going up to 1,000 acres. Other inquiries have come from potential energy farms.

King said she views this as a way to protect Hawaii farmland.

"We've got so much abandoned ag land. We are saving ag land so it doesn't get developed," she said.

As the technique of turning renewable sources into diesel evolves, the newest of the dozen or so refineries spawned from the Maui original will be a zero-waste operation. All the byproducts will be sold.

For example, glycerin: The Maui plant gives its glycerin away (to composting), but the Kona refinery has a buyer for all its output. (A Pacific Biodiesel refinery in Oregon already is refining its glycerin and selling it.)

Spencer said Pacific Biodiesel is the first company to win the deal of the year award twice.

Adama Materials is a Honolulu developer of proprietary nanotechnology-based advanced materials for use in structural and other applications.

Its incubators are from the University of Hawaii - Mehrdad Nejjad, chairman of the department of mechanical engineering, and Donavan Kealoha, a graduate of both the Shidler School of Business and the Richardson School of Law.

Chief Executive Timothy Dick said, "We think Adama Materials is a model of how high-tech investment can happen in UH. The academic, financial and technical communities all came together to make this possible."

Innovasc was founded by Peter Schneider and Robert Giasolli to develop alternatives to stent technology in medicine. Its products permit minimal-injury balloon angioplasty.

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\* This article includes a correction from the original published on Friday, Jan. 28, 2011. Pacific Biodiesel's new refinery on the Big Island's output was incorrectly stated. The Maui News apologizes for the error.

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