

Approved

Feb. 18, 1992

Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Representative Diane Gjerstad at
Chairperson

3:35 ~~xxx~~ p.m. on Tuesday, February 11, 1992 in room 423-S of the Capitol

All members were present except:

Representatives Baker, Bishop, Dean, Mead, Wagnon, Wisdom. Excused.

Committee staff present:

Lynne Holt, Legislative Research
Jim Wilson, Legislative Revisor
Betty Manning, Secretary

Conferees appearing before the committee:

Sally Thompson, State Treasurer
Rex Wiggins, President, KS Venture Capital, Inc.

Chairperson Gjerstad called the meeting to order at 3:35 p.m.

The balloon on **HB 2681**, enterprise zone bill, was distributed and will be worked by committee on Monday, February 17, 1992, with staff briefing.

The Chair opened hearings on **HB 2808**, proposed legislation increasing board membership of Kansas Venture Capital, Inc. (KVC) to include the state treasurer.

First conferee was Sally Thompson, State Treasurer, who spoke in favor of the proposed legislation. State Treasurer Thompson's testimony indicated a need to provide oversight on behalf of the state on public funds invested in KVC to protect the public interest. The new position on the board would not be a voting member. Attachment 1.

Next conferee, Rex Wiggins, President, KVC, strongly urged that this legislation not be enacted as it would significantly decrease KVC's chances for success. He stated his position is this legislation would expose the state and KVC to shareholder litigation and decrease investment activity in Kansas businesses. Mr. Wiggins feels the \$5 million investment in KVC by the state may be the best economic development investment ever made by the state. He also stated KVC's counsel advised if any representative of the state of Kansas was a member on KVC Board of Directors, the liberal disclosure provision of the Kansas Open Records Act could allow disclosure of confidential financial information as well as documents, trade secrets and materials concerning KVC portfolio companies to anyone seeking this information. Attachment 2.

State Treasurer Thompson and Mr. Wiggins responded to questions by committee members.

There were no other conferees. The Chair closed the hearings on **HB 2808**.

Chairperson Gjerstad asked Mr. Wiggins to give an overview of Kansas Venture Capital, Inc.

Mr. Wiggins' overview included KVC's investment profile and list of board of directors and their professions. Of the 15 board members, 8 are representatives of Kansas financial

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,
room 423-SStatehouse, at 3:35 ~~am~~/p.m. on Tuesday, February 11, 1992

institutions, 2 are venture capitalists and 5 from business sector; all proficient in their respective fields. Mr. Wiggins introduced Thomas Blackburn, one of the vice-presidents of KVICI, who attended the hearing. To date, KVICI has invested in excess of \$7,850,000 in 14 companies located in nine counties creating/retaining 1047 jobs.

Mr. Wiggins also commented on the marketing and public relations efforts and listed the company's investment operating strategy. Attachment 3. He also distributed a brochure entitled "Kansas Venture Capital, Inc". Attachment 4.

Chairperson Gjerstad thanked State Treasurer Thompson and Mr. Wiggins for appearing before the committee.

The Chair stated that before further discussion on **HB 2808** she would ask for Attorney General's opinion regarding the Kansas Open Records Act as it affects KVICI if there were a public member on the board.

The Chair announced there would be no committee meetings until Monday, February 17, 1992.

The meeting adjourned at 4:45 p.m.



STATE OF KANSAS

Sally Thompson

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Testimony presented to the
House Committee on Economic Development
by State Treasurer Sally Thompson
Tuesday, February 11, 1991

Thank you madam chairperson, Rep. Gjerstad, and members of the economic development committee for the opportunity to discuss House Bill 2808 regarding state representation on the board of Kansas Venture Capital Inc. (KVCII).

As you know, the legislature authorized incremental investment of up to \$10 million as certified by the secretary of the department of commerce in Kansas Venture Capital. The state is (with its \$5 million invested to date) and will continue to be the major stockholder in KVCII.

What HB 2808 does is provide the pooled money investment board (PMIB) the capacity to provide oversight on behalf of the state on the public funds invested in Kansas Venture Capital. It expands the board to include the state treasurer who is chair of the PMIB.

Whenever the state funds an economically targeted investment such as KVCII, it is important to provide oversight--beyond the annual report required by statute--to protect the public interest. A specialized investment of venture capital by its very nature requires a lower profile, long-term oversight as opposed to other investments which more easily lend themselves to detailed short-term performance of production or earned interest return.

This bill provides for the kind of oversight by PMIB that satisfies watching out for public funds as well as protecting KVCII's private business stance in its operations and activities.

*Eco-Devo
Attach #1
02-11-92*

Kansas Venture Capital, Inc.

**TESTIMONY
House Bill 2808**

February 11, 1992

*Eco-Devo
Attach. #2*

02-11-92

House Bill 2808

On behalf of myself as President of Kansas Venture Capital, Inc. ("KVCII"), KVCII's Board of Directors, and its nearly 400 private shareholders, I must strongly urge that you not enact House Bill 2808. Although I must assume that the proponents of House Bill 2808 have nothing but the absolute best of intentions in proposing this bill, enactment of it will significantly decrease KVCII's chances for success. Enactment will immediately expose the State and KVCII to shareholder litigation and will decrease investment activity in Kansas businesses.

The involvement of a public sector representative on the Board of Directors of KVCII may damage the value of KVCII's common stock. The track record of public involvement in private enterprise at the board level is very poor and the failure rate is very high. This fact was clearly apparent and thoroughly debated when legislation concerning KVCII was originally passed in 1986. Shareholders, in all likelihood will initiate litigation against the State of Kansas and KVCII if the board turns into a "public forum." We have already received letters from and had numerous discussions with shareholders concerning House Bill 2808. Our corporate counsel has advised us that such litigation could be successful because, at the time common shareholders invested over \$6,000,000 in KVCII, they relied on the fact that KVCII would be managed by the private sector and that the State of Kansas, by owning non-voting preferred stock, would not be involved in the management of KVCII. KVCII was to be operated as similarly as possible to a private venture capital firm.

As a federally-licensed "small business investment company" ("SBIC"), KVCII is subject to hundreds of pages of SBA regulations with which KVCII complies. In 1986, at the time of enactment of various statutes relating to KVCII, this legislature was aware of the existence of these regulatory provisions. In fact, this legislature specifically required in the 1986 statutes that KVCII be operated to maintain its license as an SBIC. Thereafter, when hundreds of investors throughout the State of Kansas purchased over \$6,000,000 of KVCII's voting common stock, they were also aware of and relied on the fact that these regulatory mechanisms would remain in place. They were also advised that a professional venture capitalist would be hired to run the company and that a well balanced private board elected by the common shareholders would also provide oversight. The original structure and plan is in place and working quite well.

The SBIC regulations that govern KVCII provide a substantial number of restrictions that increase the likelihood that KVCII will be successful over the long term and will achieve the objectives of providing capital to small business enterprises.

There is not sufficient time today to go into any detail concerning these regulations. However, to mention just a few examples, these regulations strictly limit the amount of KVC's capital that can be invested in any one portfolio company and they subject KVC to a comprehensive set of conflict of interest rules. The regulations contain many other important restrictions that require the observance of strict professional standards of the industry and increase the likelihood of financial success of KVC and its portfolio investments.

The obvious conclusion is that this legislature determined that its 1986 legislation and the SBIC regulations, along with the active involvement of KVC's private shareholders through its Board of Directors, would adequately protect the interest of all of KVC's shareholders, including the State's preferred position. Many of KVC's hundreds of private shareholders have significant investments in their KVC common stock and these shareholders take very seriously the voting of their stock in selecting the best available members for the Board of Directors. KVC's shareholders play an important role in locating and soliciting highly successful individuals from financial institutions and the business community to be nominees to fill any vacancies that exist on the 15-member Board of Directors, five of which positions are elected each year.

KVC's 1992 Board of Directors constitutes as great of a pool of talent, experience and integrity as can be found in any other Board of Directors in the State of Kansas. Our Board membership is listed in the KVC Overview previously handed out and referenced as an addendum to this testimony.

Information about KVC's portfolio companies must be kept confidential to protect the financial interests of these small businesses. The SBA regulations clearly acknowledge that the soundness of the SBIC program depends in large measure upon the reliability of commercial, technical, financial, and other business information that can be obtained by an SBIC relating to the affairs of its portfolio companies. Much of this information, if made public, would jeopardize the credit and competitive positions of SBIC's portfolio companies. The SBA regulations therefore recognize that it is essential that portfolio companies be assured that information provided to the SBIC remain confidential. In fact, at the federal level, disclosure of confidential information results in criminal penalties upon any SBA representative who disseminates any confidential information to anyone outside the restricted number of individuals within the SBA who monitor the program.

KVC has been advised by its counsel that if any representative of the State of Kansas is a member of KVC's Board of Directors, the liberal disclosure provisions of the Kansas Open Records Act ("KORA") could allow for the disclosure of confidential financial and other information, documents, trade secrets and other

materials concerning KVCII's portfolio companies to virtually anyone who wanted to obtain such information. Such information will be in the possession of KVCII's management and thereby its Board of Directors in order to maintain, monitor and achieve successful portfolio investments. Understandably, there are competitors and other individuals or companies who would take the opportunity to obtain such information under KORA and use the information to the detriment of KVCII's portfolio companies and thereby to the ultimate detriment of not only KVCII's nearly 400 common stock shareholders but also the State of Kansas.

A portfolio company, or a shareholder of KVCII, who was damaged by the disclosure of confidential information through KORA, as a result of a representative of the State of Kansas or one of its agencies being a member of the Board of Directors of KVCII, could initiate litigation to recover damages suffered as a result of this disclosure. Obviously, this legislature does not intend to create a situation where this could happen. The financial risk and negative publicity to the State of Kansas could greatly exceed the less than 1/10th of 1% of state-invested funds currently invested by the State of Kansas in KVCII's preferred stock. More importantly, the tremendous economic development results being achieved by KVCII would be severely diminished.

In summary, there is no need for a public sector representative to be on KVCII's Board of Directors. The true financial risk of KVCII is borne by its nearly 400 voting common shareholders, not the State of Kansas which owns preferential stock. The State of Kansas must get all of its money back before any of the private shareholders' stock can be repurchased. The comprehensive federal regulations governing KVCII, along with its strong Board of Directors, make KVCII a successful economic development organization and insure proper and adequate oversight. The current system of checks and balances works and should not be tampered with by this legislature. Enactment of House Bill 2808 will damage KVCII, its Kansas portfolio companies (which it was designed to protect and promote), and its Kansas shareholders (who's risk dollars made this program possible) and the State of Kansas (which benefits from the jobs and continuous recycling of funds generated KVCII). If left alone, KVCII will continue to bolster economic development in the State of Kansas for many years in the future without any additional investment by the State of Kansas. The one-time \$5 million investment in KVCII by the State of Kansas four years ago is well preserved and may be the best economic development investment ever made by this state. You and your fellow legislators who facilitated this program in 1986 can be proud of its continuing accomplishments and should be applauded for your efforts. No changes should be made to this model program. It is a program that Kansas and Kansans can point to with pride.

Kansas Venture Capital, Inc.

OVERVIEW

February 11, 1992

*Eco-Devo
Attach. #3
02-11-92*

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OVERVIEW

I. INTRODUCTION

Kansas Venture Capital, Inc. ("KVC") is an \$11.5 million for profit Kansas corporation established in 1976 to provide equity capital, loans and management assistance to small businesses. The Company maintains offices in Overland Park (primary), Wichita and Topeka. KVC's investment interest lies in purchasing equity securities of Kansas-based companies having substantial potential for growth and long-term equity appreciation commensurate with the corresponding risk for such investments. KVC's investment capital has been provided by the purchase of voting common stock by several hundred Kansas-based financial institutions, corporations and individuals, as well as by a direct non-voting preferred stock investment by the State of Kansas.

KVC is a federally-licensed Small Business Investment Company (SBIC). As an SBIC, KVC generally is prohibited from owning a controlling interest in its portfolio companies and is subject to a variety of restrictions, audit procedures and other requirements governed by the federal SBIC regulations. While KVC does not seek to play an operational role in its portfolio companies, KVC's desired role must not be passive. An executive officer of KVC generally will hold a seat on the Board of Directors of the portfolio company and through this involvement and other means serve as an advisor on major strategic decisions.

KVC's management team possesses a broad range of venture capital and functional operating experience and skills. That experience is made available to management of the ventures we back. KVC's objective is to become a trusted, respected, valued outside partner to the entrepreneurs in whose companies it invests.

Since 1987 KVC has significantly increased its capital, has recruited its three current professionals and has made 14 investments in nine counties across Kansas. To date, KVC has realized two capital gains and two write-offs from these investments. Venture capital investment requires patient, long-term investors who must wait five to seven years to realize significant capital gains. There will always be an erratic income stream from any venture capital investment portfolio. Most industry observers compare venture capital investing to a "marathon" not a "sprint." All venture capital investment portfolios experience early losses and few substantial gains are realized in the first few years. One good by-product of KVC's early stages of building its investment portfolio that can be measured are the hundreds of job creations that have occurred from its investments. Direct economic gains within Kansas from KVC's investment activities are sizeable and measurable.

OVERVIEW

KVCI's Investment Profile

a. *Industry Focus*

KVCI does not restrict its investments to any particular industry. With the exceptions of retail, natural resources, real estate or financial institutions, in which KVCI may not invest pursuant to Kansas and Federal law, KVCI will consider ventures in any field. While many of its investments involve manufacturing, KVCI is also interested in wholesale or distribution and high technology businesses.

b. *Stages of Investment*

KVCI's management team has experience with, and will consider investment in, companies at various stages of development. KVCI primarily is interested in enterprises which have an operating history and have established a market for their products and services. KVCI invests primarily to facilitate expansions of existing businesses, acquisitions, recapitalizations, and leveraged buyouts. KVCI does not do seed capital financing; however, investments in early-stage companies will be considered if potential returns may be available to warrant the corresponding risk. KVCI will consider turnaround situations if a significant revenue base exists.

c. *Investment Size*

Pursuant to federal and Kansas law, KVCI may invest in excess of \$1 million directly in any one venture, although its initial investment range is from \$250,000 to \$750,000. Larger equity needs of potential portfolio companies can be satisfied through KVCI's ability to originate and participate in syndications with other venture investors with whom KVCI has working relationships thereby allowing KVCI to raise fundings far in excess of its investment limit.

d. *Investment Structures*

Because companies that provide attractive investment opportunities for venture capital investment have special financial requirements, KVCI designs flexible, equity-oriented investment structures and assists in securing additional financing sources to ensure the best possible capitalization to meet a company's prospective needs.

Investment structures include common or preferred stock, convertible preferred stock or notes, common stock warrants or subordinated notes. KVCI investments may consist of any combination of these securities and are generally structured with repayment or repurchase terms from 5 to 7 years.

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II. BOARD OF DIRECTORS

Pursuant to Kansas state law, KVCII's Board of Directors consists of 15 members who must be actively engaged in the following professions: eight are representatives of Kansas financial institutions, two are venture capitalists, and five are from business sectors of special importance to the Kansas economy and each of the 15 members must be recognized for outstanding knowledge and leadership in their respective fields. The Board has staggered three year terms with five members elected each year by KVCII's shareholders.

Management of KVCII strongly agrees with the Kansas state statute that mandates this board composition. Each of the KVCII Board members have created a significant amount of wealth in Kansas in their respective fields of commerce. KVCII's primary goal is to create economic wealth for its shareholders, portfolio companies and the economy of the state of Kansas and the existing structure of its Board of Directors is critical in meeting that goal.

KVCII Board of Director's - 1991/1992

	<u>Profession</u>	<u>Term</u>	<u>Committee</u>
H. James Bartels President Farmers State Bank & Trust Hays, Kansas 67601	Banking	1992	
Dan R. Bonine President Bank IV Great Bend, N.A. Great Bend, Kansas 67530-0227	Banking	1994	Executive/Investment
Fred P. Braun, Jr. President Creative Enterprises, Inc. Leavenworth, Kansas 66048	Business	1992	
Rick D. Cecil Vice President Kyle Railways, Inc. Phillipsburg, Kansas 67661	Business	1992	

OVERVIEW

	<u>Profession</u>	<u>Term</u>	<u>Committee</u>
John M. Davis President Fidelity State Bank Garden City, Kansas 67846	Banking	1993	
Charles I. Moyer Ex. Vice President, First National Bank Phillipsburg, Kansas 67661	Banking	1993	Executive/Investment
Derek L. Park President P.M.S. Foods Hutchinson, Kansas 67504-1099	Business	1993	
David L. Strohm Executive Vice President Fourth Financial Corporation Wichita, Kansas 67202-0004	Banking	1994	Investment
Paul H. Viets President Citizens National Bank Independence, Kansas 67301	Banking	1992	Executive
Rex E. Wiggins President Kansas Venture Capital Overland Park, Kansas 66204	Venture Capital	1994	Executive/Investment
Gordon W. Elliot President National Pizza Pittsburg, Kansas 66762	Business	1993	Executive/Investment
H. Samuel Forrer President Grant County State Bank Ulysses, Kansas 67880	Banking	1993	

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	<u>Profession</u>	<u>Term</u>	<u>Committee</u>
John R. Graham Executive Vice President Kansas Farm Bureau Manhattan, Kansas 66502	Insurance	1994	Executive/Investment
Donald R. Landoll President Landoll Corporation Marysville, Kansas 66508	Business	1994	
Michael J. Meyer Principal Allsop Venture Partners Overland Park, Kansas 66210	Venture Capital	1992	Executive/Investment

This well-balanced Board of Directors, comprised exclusively of individuals having significant business experience in their respective fields in Kansas provides management with significant practical advice and insight as the Board guides KVCII's operating activities.

The Board of Directors has two main committees, the Investment Committee and the Executive Committee. The Investment Committee approves all of KVCII's new investments (see detailed discussion in Section V). The Executive Committee serves as the Nominating Committee for new directors and officer candidates of KVCII and the Personnel Committee that reviews its management.

III. MANAGEMENT - OFFICERS

Rex E. Wiggins - President

Mr. Wiggins was elected President and a member of KVCII's Board of Directors in December, 1987.

Prior to becoming President he was owner and President of R.E. Wiggins & Company which provided venture capital consulting services to small and medium-sized companies. During this same period, he served as a consultant to Allsop Venture Partners, a private venture capital firm with capital in excess of \$105 million. Previously, Mr. Wiggins was employed by MorAmerica Capital Corporation.

OVERVIEW

He joined MorAmerica Capital as an Investment Analyst in February, 1979, and was promoted to Regional Vice President in June, 1980 and thereby became responsible for the total operation and profitability of MorAmerica Capital's Kansas City office. MorAmerica is a Small Business Investment Company with over \$40 million invested in companies primarily located in the Midwest. Mr. Wiggins served on the Board of Directors of six of the twelve Kansas City portfolio companies of MorAmerica Capital Corporation.

Mr. Wiggins spent four years with the University of Missouri as a Business Consultant to small businesses in the State of Missouri prior to joining MorAmerica Capital Corporation. He currently serves on the Board of Directors for three private companies in varied industries. Mr Wiggins holds both a B.S. degree in Economics and an M.B.A. degree from the University of Missouri.

Thomas C. Blackburn - Vice-President

Mr. Blackburn joined KVCII as a Vice-President in December, 1988. Mr. Blackburn has been employed in the investment industry for several years in various capacities. Prior to joining KVCII, he was employed by Stern Brothers and Company, a Kansas City investment banking firm, where he was responsible for establishing both origination and distribution relationships for corporate transactions. As Director of Equity Syndicate, he was responsible for transaction evaluation and selection as well as marketing, trading and placement support. He was also employed by Piper, Jaffray and Hopwood, a Minneapolis investment banking firm, as an investment executive in the Kansas City office, where he was responsible for institutional and retail business development. He began his career in 1984 as a retail producer for Merrill Lynch and Company.

Mr. Blackburn holds both a B.S. Degree in Business Administration and M.B.A. with a finance emphasis from the University of Kansas. He currently serves on the Board of Directors of four private companies in varied industries and is on the board of the Kansas City Securities Association.

Marshall D. Parker - Vice-President

Mr. Parker joined KVCII as a Vice-President in October, 1990. He has counseled and financed emerging businesses since 1978. After graduating from Kansas State University with a B.A. degree in accounting, Mr. Parker joined the Wichita-based CPA firm of Allen, Gibbs & Houlik. He was responsible for marketing and servicing the firm's consulting practice and EDP center. In 1983 he joined the Management Services department of Ernst & Young in Kansas City. He was later selected to help create the Kansas City office's Entrepreneurial Services department. Mr. Parker's eight years with two national CPA firms provide him a strong technical and practical base of experience.

OVERVIEW

In 1987 he joined the Kansas City office of Blunt Ellis & Loewi, a regional investment bank. Mr. Parker's responsibilities included business development, financial analysis and due diligence for public offerings, fairness opinions and merger/acquisition projects. He co-founded Snelgrove Parker & Company, Overland Park-based investment banking firm in 1989. Mr. Parker is a Certified Public Accountant and Certified Manager Accountant. He served on the Board of Directors of the Kansas Society of CPAs from 1986-1989. He chaired the KSCPA's Management Advisory Services Committee and the Young CPAs Committee. He is a member of the American Institute of Certified Public Accountants and the Kansas Society of Certified Public Accountants.

IV. MARKETING AND PUBLIC RELATIONS

KVCI carries out its marketing and public relations efforts by utilizing a variety of methods and forums. Although there is overlap, management views these two functions to be separate in objective and, as such, approaches them accordingly. Because of this two fold approach they are separately discussed below.

Marketing

The marketing activities employed by KVCI management are related primarily to identifying high quality investment opportunities. Management is convinced the most productive activity is continuous efforts to expand KVCI's referral network of individuals and companies that drive business. It is through such centers of influence and contacts that the company will maximize long term business development success.

KVCI utilizes several methods in its marketing efforts. The primary thrust is continuous communication of KVCI's activities with the extensive network of personal contacts of its management, board and shareholders. This is the primary source of leads for both investment opportunities and new business contacts.

The goal is to continuously increase KVCI's visibility in the marketplace by developing new contacts through personal marketing calls by management to potential referral sources including accountants, attorneys, commercial and investment bankers, brokers and business people.

Group meetings serve as more of a shotgun approach to marketing and tend to be more effective at increasing visibility and public relations, however, valuable marketing contacts periodically are made at such meetings. Target audiences include bank lending officers, trade associations, legal and accounting firm group meetings, and local business and industry organizations. Another approach employed by KVCI along the same lines is periodic hosting of receptions among business and industry leaders as well as selected individuals from the public sector.

OVERVIEW

KVCI also utilizes direct mailings in its marketing efforts. This approach is designed primarily to raise KVCI's visibility to its network of business contacts. KVCI is continually expanding and updating its database of business contacts. Mailings include, but are not limited to, the following pieces: tombstones, reprints of articles, brochures, press releases and KVCI activity reports. Management believes that its direct mailings have been an effective low-cost approach to marketing.

Finally, a more long-term marketing approach is to make direct prospecting calls to business that may fit KVCI's investment profile. The goal is to develop a level of comfort and a relationship that may lead an owner or manager to contact KVCI for future financing needs that may arise. This is an on-going process and can lead to excellent investment opportunities.

Public Relations

KVCI's public relations efforts are focused primarily on updating our shareholders, the business community, the public and state and local government officials of KVCI's activities. Management has identified and employed several techniques to achieve its public relations goals. The two main methods are corporate communications and personal appearances.

Corporate communications are primarily written correspondence. Periodic mailings are sent to KVCI shareholders, the KBA network, economic development organizations, state and local governmental officials and organizations in various industries. Potential topics include a variety of subjects such as investment activity reports, marketing brochures, press releases, tombstones, portfolio updates, economic development impact analyses, and other relevant KVCI information.

Additionally, KVCI's management periodically has written articles and grants interviews to publications such as local media and industry trade publications. The company has recently significantly increased its corporate communications efforts and is committed to continuous on-going public relations through these methods.

Personal appearance is the other major method of public relations activity employed by the Company. This would include personal appearance by any one or all of the KVCI management team. Targeted appearances would include those related to KBA activities and statewide economic development conferences. These forums provide significant visibility for the Company with its shareholders, as well as leaders in both the private and public sectors. Other personal appearances that assist the Company from a public relations standpoint include attendance at Venture Capital conferences and those associated with other professions that are related to business and industry.

OVERVIEW

V. INVESTMENT OPERATING ACTIVITIES

Elements of the KVCII's Investment Operating Strategy.

For the past four years, the Company has emphasized the following investment operational characteristics, and intends to continue to do so in the future:

1. **Locating Potential Investments** - Most of the investment leads for the Company come from the extensive personal contacts of its management team. These referral sources include investment bankers, commercial banks, accountants, attorneys and consultants. Referrals are also generated by KVCII's shareholders and other venture capital firms throughout the Midwest that KVCII's management has known for many years.
2. **Analyzing Potential Investments** - KVCII's investment evaluation process draws on the capabilities and broad experience of its management team. All candidates are evaluated in consideration of KVCII's Policy Guidelines for Portfolio Companies.
3. **Structuring Investments** - KVCII's investment are typically structured as negotiated private transactions.
4. **Approvals** - All new investment recommendations of KVCII are approved by the Investment Committee by majority vote. A comprehensive Investment Recommendation that is prepared at the conclusion of KVCII due diligence is sent by KVCII management to the Investment Committee prior to their vote. A meeting, usually via telephone conference, is held so that all members of the Investment Committee can ask questions and voice opinions to the rest of the Committee. Investment Recommendations usually contain information on the company's management, products, market, financial data and KVCII's potential rate of return.
5. **Monitoring Investments** - Management of the Company expends a substantial amount of time monitoring portfolio investments in an effort to maximize its rate of return on successful investments and to minimize losses on unsuccessful investments. KVCII requires that all portfolio companies send in monthly financial data and KVCII staff does continual financial analysis of the data. All portfolio company investees are visited often and a KVCII officer serves on their Board of Directors. Many portfolio companies provide weekly "flash" reports on operations and financial position to KVCII.
6. **Liquidating Investments** - The Company's equity investments are generally for extended periods of time until disposed of through repurchases by the portfolio companies, sale or merger of the portfolio companies, or the sale of the portfolio companies' securities in the public market.

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- 7. Portfolio Valuations** - Management makes formal annual valuations of each security in the Company's portfolio at the end of each fiscal year and sends a summary of those valuations to the Company's Board of Directors. KVCII's Portfolio Valuation Policy Guidelines are followed in preparing these valuations. These valuations are prepared to summarize how the KVCII portfolio is progressing. No compensation is given to KVCII management as a result of these valuations. All valuations are reviewed by KVCII's independent accountants.

VI. ADMINISTRATIVE STAFF AND PROFESSIONAL SERVICE PROVIDERS

To support its professional management team, KVCII employs an office manager/corporate secretary, treasurer, financial analyst and a receptionist. All staff personnel receive performance reviews on no less than an annual basis by their supervisor (s). Collectively this staff performs all administrative functions of KVCII at the direction of the president and vice-presidents.

KVCII has employed Mize, Houser and Company as its independent auditing firm for the past four years. KVCII employs Morrison and Hecker as its legal counsel. KVCII utilizes Merchants National Bank of Topeka as its stock transfer agent. KVCII's primary bank accounts are with Bank IV of Kansas City, N.A.

VII. REVIEW OF FISCAL 1991

We are pleased to report that 1991 has been another successful year for Kansas Venture Capital, Inc. both financially and operationally. We continue to be on track to achieve long-term financial performance for our shareholders, while playing an important role in economic development efforts throughout the State of Kansas.

For the year ended December 31, 1991, KVCII achieved after tax profits of \$421,845. Contributing to our profitability was a \$400,000 capital gain from the sale of an equity interest in a portfolio company. This is one of many anticipated capital gains that will enhance profitability in future years as our portfolio matures.

KVCII assets at December 31, 1991, totaled \$11,545,298 and stockholders' equity was \$11,438,519. The Company's portfolio investments at year-end totaled \$5,599,757 with a cost basis of \$5,312,583. We are pleased with the overall condition of our investment portfolio, particularly considering the recessionary environment we have experienced since the latter half of 1990 through 1991.

Three new investments totaling \$1,978,000 were added to the portfolio in 1991.

OVERVIEW

Demand for venture capital financing has increased significantly due to the soft economy, a tightened lending environment and an overall decline in funding sources available in the region. Additionally, our increasing referral network and overall marketing activities have increased both the quantity and, more importantly, the quality of investment opportunities to the Company.

We are also proud of KVC's direct contribution to enhancing the Kansas economy. Since December 1987, KVC has invested in excess of \$7,850,000 in 14 companies throughout the state. These companies have made more than \$20,130,000 in capital expenditures and paid in excess of \$7,900,000 in federal, state and local taxes. KVC's companies have created and preserved approximately 1,047 jobs for Kansans. Cumulative payrolls exceeding \$50,000,000 have been paid and, as of December 31, 1991, the annualized payroll of the recipient companies was approximately \$16,250,000. The multiplier effect of new jobs created by these companies has resulted in an estimated \$740,000 in additional property taxes. We are proud of our investment portfolio and its significant contribution to the economic development of the State of Kansas.

We are pleased with our performance in 1991 and look forward to continued success in the future. The strength of KVC's professional staff and Board of Directors have made us one of the strongest and most active venture capital organizations in Kansas. We are confident that Kansas Venture Capital, Inc. is well positioned to surpass its goals of building value for our shareholders and enhancing the Kansas economy.

Kansas Venture Capital, Inc.

Our management team possesses a broad range of venture capital and functional operating experience and skills.



Left to Right: Marshall D. Parker, Vice President; Rex E. Wiggins, President, and Thomas C. Blackburn, Vice President.

Kansas Venture Capital, Inc. (KVC) is an \$11.5 million Kansas corporation established in 1976 to provide equity capital, loans and management assistance to small businesses. Our investment interest lies in purchasing equity securities of Kansas-based companies having substantial potential for growth and long-term equity appreciation. KVC is a private, for-profit entity. KVC's investment capital has been provided by many Kansas-based financial institutions, corporations and individuals, as well as by direct investment from the State of Kansas.

KVC is a licensed Small Business Investment Company (SBIC). As an SBIC, we are prohibited from having a controlling interest in our portfolio companies. While we



*Eco-Devo
Attach #4
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do not seek to play an operational role in our portfolio companies, neither would our preferred role be called passive. We will generally hold a seat on the Board of Directors and through it and other means serve as a counselor on strategic major decisions.

Our management team possesses a broad range of venture capital and functional operating experience and skills. We bring that experience to ventures we back. Our objective is to become a trusted, respected, valued outside partner to the entrepreneurs in whose companies we invest.

Investment Profile

INDUSTRY FOCUS

We do not restrict our investments to any particular industry and, with the exceptions of retail, natural resources, real estate or financial institutions, will consider ventures in any field. While many of our investments relate to manufacturing we are also interested in wholesale or distribution, high technology and service businesses.

STAGES OF INVESTMENT

Our management team has experience with, and will invest in companies at various stages of development. We are primarily interested in enterprises which have an operat-



**We design flexible,
equity-oriented
investment
structures.**

ing history and have established a market for their products and services. Typically KVC I invests in expansion of existing businesses, acquisitions, recapitalizations, and leveraged buyouts. Although infrequent, we sometimes invest in early-stage companies. We will consider turnaround situations if a significant revenue base exists.

INVESTMENT SIZE

KVC I can invest over \$1 million directly into any one venture, although our initial investment range is from \$250,000 to \$750,000. We can address larger equity needs through our ability to originate and participate in syndications with other venture investors with whom we work and can raise fundings far in excess of our investment limit.

INVESTMENT STRUCTURES

Since venture-backed companies have special financial requirements, we design flexible, equity-oriented investment structures and assist in securing additional financial sources to ensure the best possible capitalization to meet a company's prospective needs. Investment structures include common or preferred stock, convertible preferred stock or notes, common stock warrants or subordinated notes. Our investments may consist of any combination of these securities and are generally structured with repayment terms from 5 to 7 years.



Operating Philosophy

The reason we look for the best people with the right plan is simple. Ultimately, they will be responsible for the success of the venture.

People are the key ingredient in any successful venture capital investment. That is why we seek to invest in companies with experienced, committed management teams who have identified exciting or unique market opportunities – people who understand the value of developing a sound strategic plan to reach their goals.

The reason we look for the best people with the right plan is simple. Ultimately, they will be responsible for the success of the venture. The long, demanding process of building value in a business opportunity is in the hands of the people we back, and we realize they are primarily responsible for getting the job done. Their experience, judgement, and long hours will be the most critical element in the effort.

We, however, are always available to assist in the building process. Once we have made an investment, we do everything possible to help ensure the success of the portfolio company. Beyond our investment, we can provide expert advice that will help our companies grow and prosper.

We can provide general business advice, based upon years of collective experience in a variety of industries. We can identify and help analyze acquisition opportunities. We can help negotiate additional financing flexibility. In some cases, we provide additional direct funding. In all cases, our portfolio companies' goals are our goals.

We feel strongly that, in order for this blend of management skill and capital to be



successful, we must find people with whom we can work as partners. We welcome being called upon by portfolio company management to provide assistance in virtually any situation. Of course, not every venture will require the same degree of assistance, but we take our commitment to help very seriously. Building and maintaining a strong working relationship is mutually satisfying and, in many cases, is critical to the portfolio company's success.

Value Added Commitment

By virtue of having been involved in countless other small business initiatives, we often serve an important advisory role to the management teams in which we invest. Our management team is able to offer financial and nonfinancial support by utilizing its substantial network of contacts, developed through associations with manufacturers, technical specialists, portfolio companies, other venture capitalists and professional service providers.

FINANCIAL

We have the expertise to help structure and secure proper financing during our initial investment and in the future, as new needs arise. Through our relationships with a variety of financing sources, including banks, investment banks, asset-based lenders and other venture capital or mezzanine lenders, we can be of significant assistance in ensuring proper capitalization.



MANAGERIAL

We can provide professional counsel and assistance in finance, accounting controls and systems, marketing and production. We have helped all types of companies in each of the management disciplines required to operate a successful business.

STRATEGIC

Developing successful marketing strategies and operational tactics always requires a rigorous review of all the viable options. We can help. Our strategic planning expertise can transform a good business plan into an outstanding one. Additionally, KVCI team members can assist with mergers and acquisitions, developing or enhancing a management team, and choosing experienced board additions.

The Application and Review Process

We encourage initial telephone or letter inquiries to discuss basic fundamentals. Prior to meeting with management we prefer to review a business plan or a brief summary of the proposed venture. We believe this approach provides us with the background information necessary to serve as a basis for a productive discussion.

We can usually provide an indication of interest within a couple of weeks. If our initial response is positive and there is mutual interest in proceeding further, we will arrange a meeting and possibly request a more complete



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business plan to fully analyze the opportunity. During this process we continue evaluating the opportunity while framing our investment proposal. The process may take a few weeks or a few months, depending on negotiations and other factors.

THE BUSINESS PLAN

The business plan must serve to inform us about the specifics of the business opportunity, and should address the market size and trends, competitors, customers and market share.

Secondly, the plan should indicate management's plan of action and implementation strategy over the intermediate term, describing action steps and definitive areas of responsibility for the management team.

Finally, the plan should include detailed historical income statements and balance sheets, to the extent available, and three to five year financial projections, including income statements, balance sheets, and a cash flow and break even analysis. Additionally, the plan often includes a proposal of the desired financing, describing securities offered and proposed use of funds. Based on defensible assumptions the plan should serve as a justified look into the future and lay out what the company's future financial performance will be.

KVCI encourages all prospective companies to submit their business plans. They will be treated in strictest confidence and responded to in a timely manner.



After the Investment

After we make an investment in a company, we begin monitoring progress, evaluating growth opportunities and providing management with active support. Our involvement will vary with each situation. Our objective is to become a trusted, respected and valued outside partner to entrepreneurs in whose company we invest.

Our Team

We consider the relationship forged with our portfolio companies to be team oriented. This team includes KVCI and company principles, plus, it extends to existing relationships with financial institutions and professional service providers. In fact, most inquiries we receive originate from bankers, accountants, attorneys or advisors. These professionals play a vital role during our funding process and after the closing.

Our management team stands ready to work in expanding the Kansas economy through strategic investments in well-managed companies throughout the state.

Corporate Offices

OVERLAND PARK

6700 Antioch Plaza, Suite 460
Overland Park, Kansas 66204
(913) 262-7117
(913) 262-3509-Fax

TOPEKA

500 S. Kansas Avenue, Suite J
Topeka, Kansas 66603
(913) 233-1368

WICHITA

One Main Place, Suite 806
Wichita, Kansas 67202
(316) 262-1221
(316) 262-0780-Fax



This announcement appears as a matter of record only



**AIRPORT
SYSTEMS
INTERNATIONAL, INC.**

Overland Park, Kansas

has purchased the assets of

AVIATION SYSTEMS, INC.

*The undersigned assisted in
forming and funding
the acquisition company*

May 1991



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This announcement appears as a matter of record only

Recreation Vehicle Products, Inc.

Wichita, Kansas



*The undersigned
made a direct investment
in the company*

May 1991



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KAN-BUILD, INC.

Osage City, Kansas

Heartland Homes • Commercial Division • Willow Woods Homes



*The undersigned
structured a financing package
and made a direct investment
in the company*

April, 1991



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Kansas Venture Capital Incorporated

INVESTMENT COMPANIES

COMPANY	BUSINESS DESCRIPTION
A.R.E. Industries, Inc. Wichita, Kansas	Manufacturer of liquid/abrasive cleaning equipment
Biomune, Inc. Lenexa, Kansas	Manufacturer of poultry vaccines
Crossroads USA, Inc. Hoisington, Kansas	Apparel manufacturer
Copier Services Unlimited, Inc. Overland Park, Kansas	Sale and service of photo copiers
Cutler Repaving, Inc. Lawrence, Kansas	Recycled asphalt contractor-manufacturer
Electronic Processing, Inc. Kansas City, Kansas	Bankruptcy information processing
Hancock Electric Motor, Inc. Lyons, Kansas	Remanufacture of electric motors
Plains Plastics, Inc. McPherson, Kansas	Profile and sheet plastics extrusion
Tabs, Inc. Topeka, Kansas	Interstate truck line
Tru-Circle Corporation Wichita, Kansas	Highly specialized aerospace contract machine shop
Webco Manufacturing, Inc. Olathe, Kansas	Custom sheet metal fabrication

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Kansas Venture Capital Incorporated

ECONOMIC DEVELOPMENT

Facts on the Economic Development Impact of Kansas Venture Capital, Inc. Investment Activity . . .

- **KVCI** has invested in excess of \$7.8 million in 14 companies throughout the State of Kansas in a variety of industries, primarily manufacturing . . .
- **KVCI** portfolio companies are located in nine counties throughout Kansas, both metropolitan and rural . . .
- **KVCI** portfolio companies have made more than \$18 million in capital expenditures and paid in excess of \$6 million in Federal, State and Local Taxes . . .
- **KVCI** portfolio companies have created and preserved approximately 1,000 jobs for Kansans. Cumulative payrolls exceeding \$42 million have been paid and, as of June 30, 1991, the annualized payroll of the recipient companies was approximately \$18 million . . .
- The multiplier effect of new jobs created by **KVCI** portfolio companies has resulted in an estimated 1,200 additional jobs for Kansans, \$9 million in annual retail sales and more than \$700,000 in additional property taxes . . .

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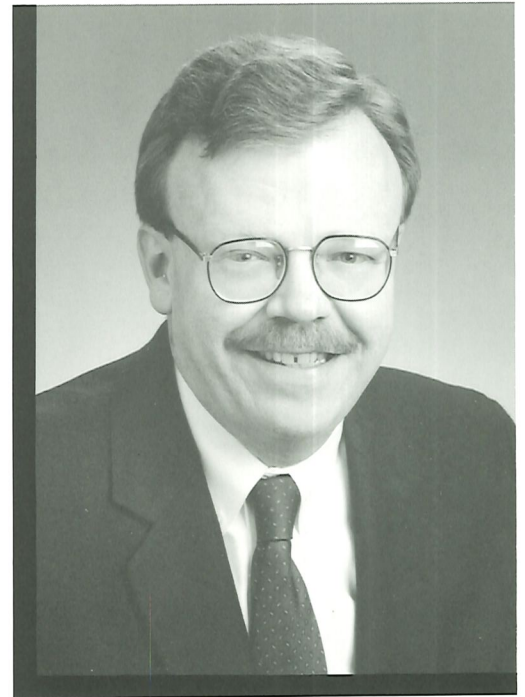


Kansas Venture Capital Incorporated

Mr. Wiggins was elected President of KVC I in December, 1987.

Prior to becoming President of KVC I he was owner and President of R. E. Wiggins & Company which provided financial consulting services to small and medium-sized companies. During this same period, he served as a consultant to Allsop Venture Partners, a private venture capital firm with capital in excess of \$105 million.

Before starting his own business, Mr. Wiggins was employed by MorAmerica Capital Corporation. He joined MorAmerica Capital as an Investment Analyst in February, 1979, and was promoted to Regional Vice President in June, 1980. He was responsible for the total operation and profitability of MorAmerica Capital's Kansas City office. MorAmerica is a Small Business



Rex E. Wiggins, President

Investment Company with over \$40 million invested primarily in companies located in the Midwest. Mr. Wiggins served on the Board of Directors for six of the twelve Kansas City portfolio companies of MorAmerica Capital Corporation.

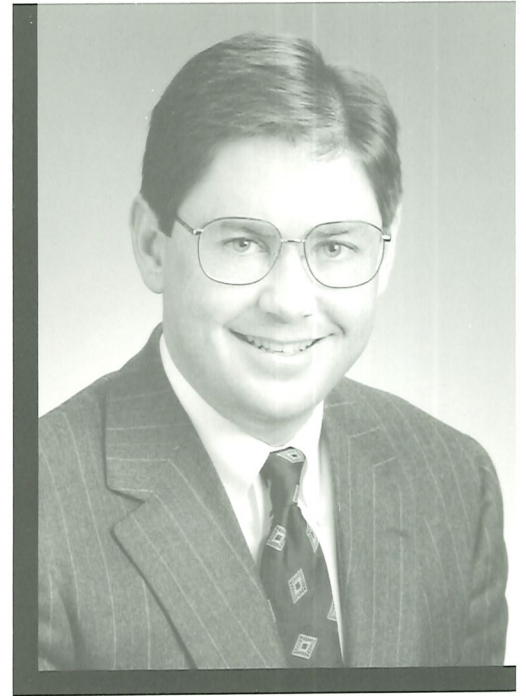
Mr. Wiggins spent four years with the University of Missouri as a Business Consultant to small businesses in the State of Missouri prior to joining MorAmerica Capital Corporation.

He currently serves on the Board of Directors for three private companies in varied industries. Mr. Wiggins holds both a B.S. Degree in Economics and a M.B.A. Degree from the University of Missouri.





Kansas Venture Capital Incorporated



Thomas C. Blackburn, *Vice President*

Mr. Blackburn joined KVCI in December, 1988. Mr. Blackburn has been employed in the investment business for several years in a variety of capacities.

Prior to joining KVCI, he was employed by Stern Brothers and Company, a Kansas City investment banking firm, where he was responsible for establishing both origination and distribution relationships for corporate transactions. As Director of Equity Syndicate, he was responsible for transaction evaluation and selection as well as marketing, trading and placement support.

He was also employed by Piper Jaffray and Hopwood, a Minneapolis investment banking firm, as an invest-

ment executive in the Kansas City office. He was responsible for institutional and retail business development. He began his career in 1984 as a retail producer for Merrill Lynch and Company.

Mr. Blackburn holds both a B.S. Degree in Business Administration and M.B.A. with a finance emphasis from the University of Kansas. He currently serves on the Board of Directors of three private companies in varied industries and is a member of the Kansas City Securities Association and the University of Kansas Alumni Association.



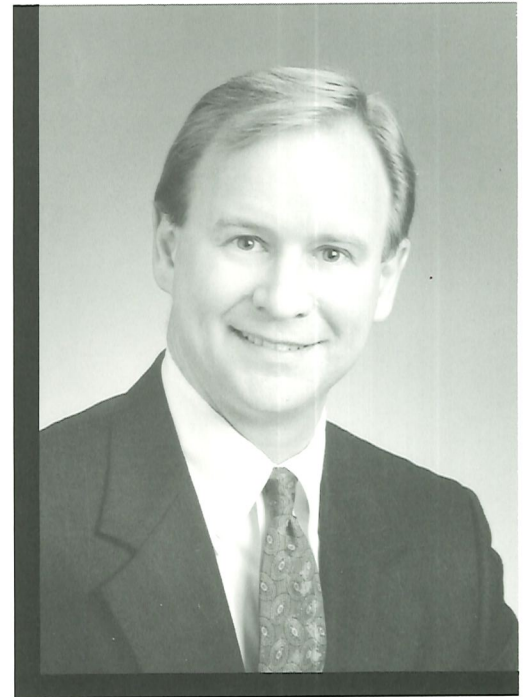


Kansas Venture Capital Incorporated

Mr. Parker joined KVCI in October, 1990. He has counseled and financed emerging businesses for the past 12 years.

After graduating from Kansas State University with an accounting degree in 1978, Mr. Parker joined Wichita-based Allen, Gibbs & Houlik. He was responsible for marketing and servicing the firm's consulting practice and EDP center. In 1983 he joined the Management Services department of Ernst & Young in Kansas City. He was later selected to help create the Kansas City office's Entrepreneurial Services department. Mr. Parker's eight years with two national CPA firms provide him a strong technical and practical base of experience.

In 1987 he joined the Kansas City office of Blunt Ellis & Loewi, a regional investment bank. Mr. Parker's respon-



Marshall D. Parker, *Vice President*

sibilities included business development, financial analysis and due diligence for public offerings, fairness opinions and merger/aquisition projects. He co-founded Snelgrove Parker & Company, an Overland Park-based investment banking firm in 1989.

Mr. Parker is a Certified Public Accountant and Certified Management Accountant. He served on the Board of Directors of the Kansas Society of CPAs from 1986-1989. He chaired the KSCPA's Management Advisory Services Committee and the Young CPAs Committee. He is a member of the American Institute of Certified Public Accountants and the Kansas Society of Certified Public Accountants.

