

Approved: 1-17-95  
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCE.

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on January 12, 1995, in Room 123-S of the Capitol.

Members present: Senators Salisbury, Burke, Downey, Feleciano, Gooch, Harris, Kerr, Petty, Ranson, Reynolds, Steffes and Vidricksen.

Committee staff present: Lynne Holt, Legislative Research Department  
Bob Nugent, Revisor of Statutes  
Betty Bomar, Committee Secretary

Conferees appearing before the committee:

Rich Bendis, President, KTEC  
Jerry McKenna, Janus Biomedical  
Gary Sherrer, Secretary, Department of Commerce

Others attending: See attached list

**SB-13- concerning the Kansas technology enterprise corporation**

Rich Bendis, President, KTEC, introduced Jerry McKenna, Janus Biomedical, Inc. to testify as to his experience obtaining financing for his high-tech company.

Mr. McKenna reiterated that technical companies looking for venture capital most generally are denied for (a) too early a stage of development; and (b) lack of understanding of the concept of the company. The need for raising money takes so much management time that it takes away from development which is expensive and time consuming. It is highly advantageous for high technology to be able to obtain venture capital locally as investors generally desire a hands on involvement in the company. If financing cannot be obtained locally, the company is pressured to move to the area in which the financing is provided, thus, the State losing jobs and other revenues. see attachment 1

Mr. Bendis presented a summary to the committee relating the capital availability and recommendations. see attachment 2.

Gary Sherrer, Secretary, Department of Commerce, presented his views on business financing. The Secretary did voice his concern in the following areas: Communication: are all businesses aware of the grant and loan programs available. Are the programs being well publicized? Duplication: is there a duplication of programs at the state level; who has an overview of the type and number of programs available? and Fragmentation. The Secretary further testified that the free market should not be underestimated in small business lending. The Secretary cautioned as to whether the State is able to support all the suggested programs and raised the question as to unfunded liability. He urged the committee to act cautiously when getting into the lending area and stressed the importance of accountability be in to protect the interest of the state.

Senator Pat Ranson asked the following questions of Rick Bendis, President, KTEC:

1. Why can't the mission of the technology-based venture-capital fund be directed to the established Kansas Venture Capital, Inc.? If it cannot, why should the state continue to participate in the current Kansas Venture Capital, Inc.?
2. How do we build in accountability and disclosure to the proposed venture-capital fund? i.e. conflicts of interest? propping up companies in which KTEC has vested interest beyond point of reasonable commercial potential?
3. Why must we go for high-powered out of state venture capital management?
4. How can we provide for geographic balance as enterprises are selected for investments?
5. How can we justify the use of state funds other than EDIF funds which are specifically allocated for

CONTINUATION SHEET

MINUTES OF THE SENATE COMMERCE COMMITTEE, Room 123-S Statehouse, at 8:00 a.m. on January 12, 1995.

economic development projects? Why should tax dollars or pension funds be used for high risk investments?

6. If funds are leveraged, and guarantees needed, who is liable for failed investment debt?

The Committee adjourned at 9:00 a.m.

The next meeting is scheduled for January 13, 1995 in Room 123-S.



SENATE COMMERCE COMMITTEE HEARING  
JANUARY 11, 1995

JERRY MCKENNA  
JANUS BIOMEDICAL, INC.

I. Purpose of my being here

- A. Provide a personal account of Janus' experiences in trying to raise capital for an early stage company.
- B. Provide some insight into the need for venture capital funds that can provide investments in the \$1 - \$2 million range.
- C. Views on is it necessary for Kansas to have such funds available.

II. History of Janus and it's fund raising activities

- A. Originally started as Diagnostic Concepts in 1989, with Janus Biomedical, Inc. becoming the successor company when it was formed as a joint venture of DCI and a Canadian company.
- B. We are involved in the research, development, manufacture and marketing of immunodiagnostic tests, clinical chemistry reagents and instruments for detecting diseases and disorders in human blood, serum, urine and saliva.
- C. We had revenues of approximately \$1.2 million for 1994 and expect revenues of \$3.5 million for 1995.
- D. Janus and DCI have raised total capital of about \$3,650,000, to date. A breakdown of the sources of these funds is as follows:

Kansas individuals	\$270,000
Kansas seed funds	<u>\$630,000</u>
	<u>\$900,000</u>
Non-Kansas individuals	\$615,000
Canadian Gov't grant	\$135,000
Denver mutual fund	<u>\$2,000,000</u>
	<u>\$2,750,000</u>

III. The need for venture capital funds who do larger investments

- A. There are very few, if any, Kansas based funds who will do investments of \$1.0 million or more.

January 12, 1995  
Commer  
Attachment 1

SENATE COMMERCE COMMITTEE HEARING  
JANUARY 11, 1995

JERRY MCKENNA  
JANUS BIOMEDICAL, INC.

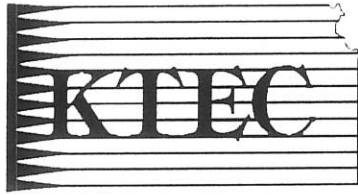
- B. Without larger investments available, it is very unproductive for management, as they never get out of the capital raising business and into the real business they are in.
- C. In high tech businesses time is usually very important from a competitive advantage and technology obsolescence standpoint. Having the funds to progress quicker is critical to survival.
- D. Technology businesses usually have a high cost associated with research and development that cannot be financed through traditional asset based lending programs.

IV. Is it necessary for Kansas to have such venture capital funds locally?

- A. High technology investing requires a venture capitalist who specializes in these type of investments because of the complex technology involved.
- B. Again, no such firms exist in Kansas.
- C. Firms on the East and West coasts are reluctant to invest in a Kansas based company.
  - 1. In the early stages they want to be hands-on involved, it is not convenient to come to Kansas.
  - 2. They are looking to strengthen the local economy, just like we are looking to in Kansas.
  - 3. There is pressure to relocate to their community before they will invest.
  - 4. There is a perception that Kansas and high technology don't go together.

V. Summary

- A. Critical need for Kansas based venture capital for technology companies, if Kansas wants to attract and retain technology businesses.
- B. This venture capital is currently NOT available in Kansas.
- C. High technology businesses take longer to develop than more traditional businesses and therefore need more capital to sustain them before they can become self-funding.



# Presentation

**Senate Commerce Committee  
January 11, 1995**

**Senate Bill 13  
Senate Bill 12**

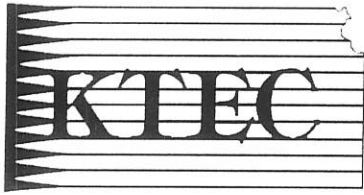
**Richard Bendis, President  
Kansas Technology Enterprise Corporation**

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*Senate Commerce  
1-12-95  
Attachment 2-1*

*January 12, 1995  
Commerce  
Attachment 2-15*





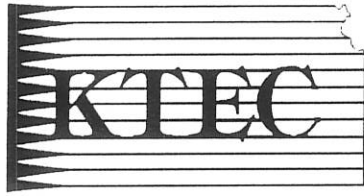
# Capital Availability Summary

## **Employment is declining:**

- in Kansas basic industries.
- in agriculture at the highest rate of any major industry.
- in defense industries as they convert to private sector commercialization.
- as larger firms are downsizing.
- as jobs simply become obsolete.

## **Employment is increasing:**

- fastest in small firms.
- in advanced technology firms.



## Capital Availability Summary

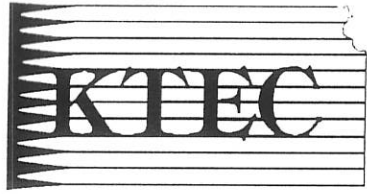
**High technology firms are premier development targets for all states. Kansas should protect and build its growing base.**

**It takes time and resources to build new business. Patience and capital are required.**

**KTEC and other economic development agencies have created a successful entrepreneurial infrastructure; but financial support lags behind.**

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# Capital Availability Summary

**There are two options for stimulating economic development:**

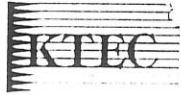
- **by recruiting and relocating businesses; or**
- **by encouraging “grow our own”**

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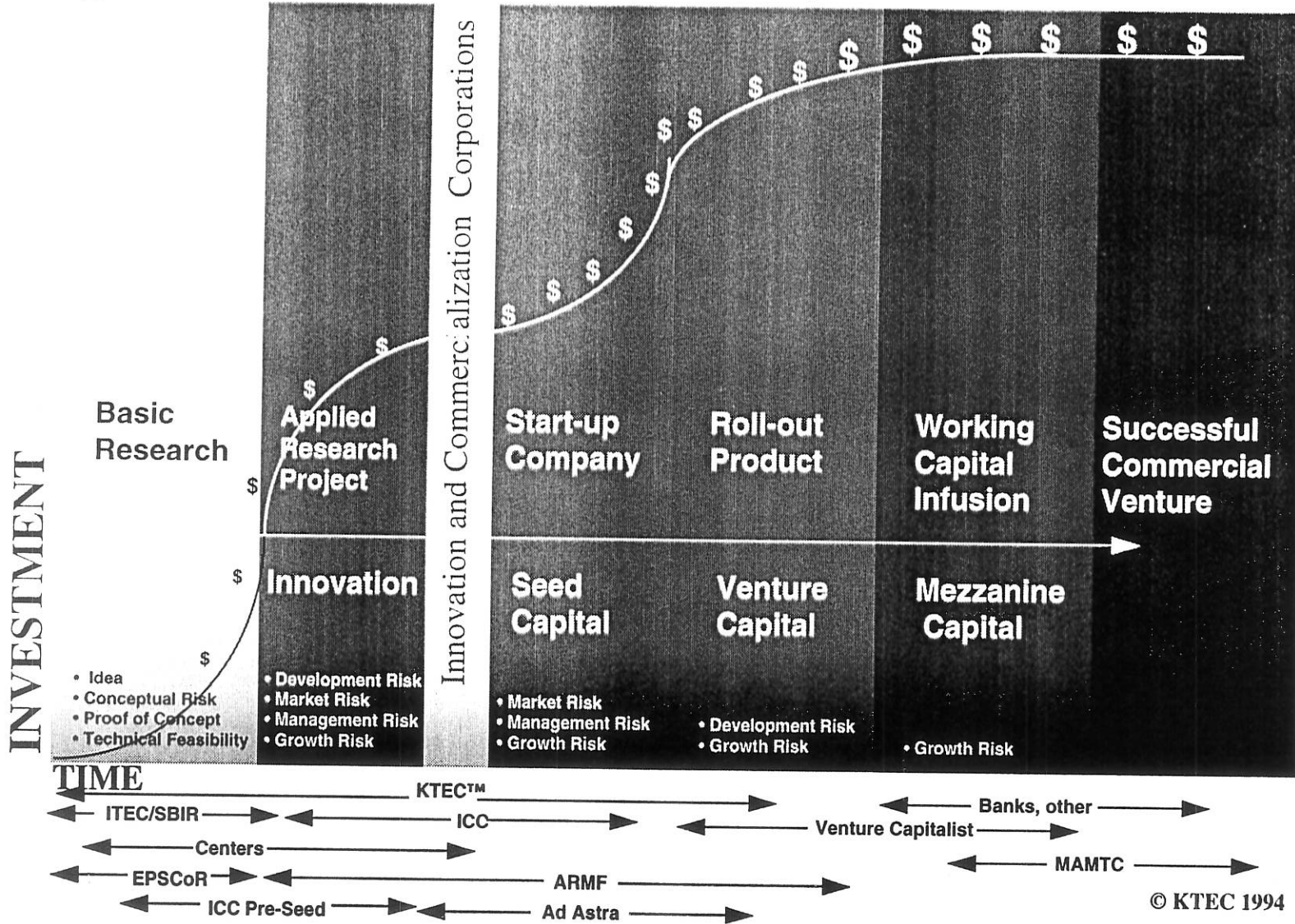
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*Venture Capital*

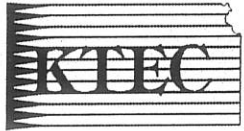
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# Technology Life Cycle



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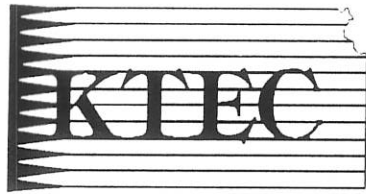


# Commercialization Capital Network

	<i>Basic Research</i>	<i>Applied</i>	<i>Start-up</i>	<i>Roll Out</i>	<i>Commercialization</i>	<i>Growth</i>
<b>KTEC/KS</b>	University R & D IDAP SBIR Proposal Grant EPSCoR <b>Futures Fund</b>	ARMF <b>Pre-Seed</b> KHI MHI WHI	<b>SBIR Bridge</b> <b>Local Seed</b> Lawrence Manhattan Wichita	Ad Astra Seed Capital	KVCI <b>Technology SBIC</b>	MAMTC
<b>Federal</b>	Federal R & D SBIR I	SBIR II	ATP TRP Micro/Loan	SBA	SBIC	
<b>Other</b>	Personal Corporate R & D Private Investor	Personal Private	Private Placement	Corporate Partners Joint Venture	Commercial Bank Venture Capital	Public Offering
	\$???????	\$25 - 100 K	\$100-500K	\$500K-\$2.5M	\$2.5M+	

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# Capital Availability Summary

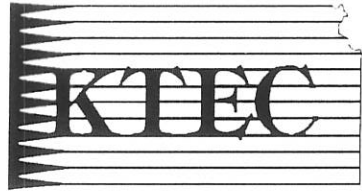
## Seed capital is:

- vitally important to Kansas entrepreneurs and small businesses.
- lacking in most areas of the country, especially Kansas.

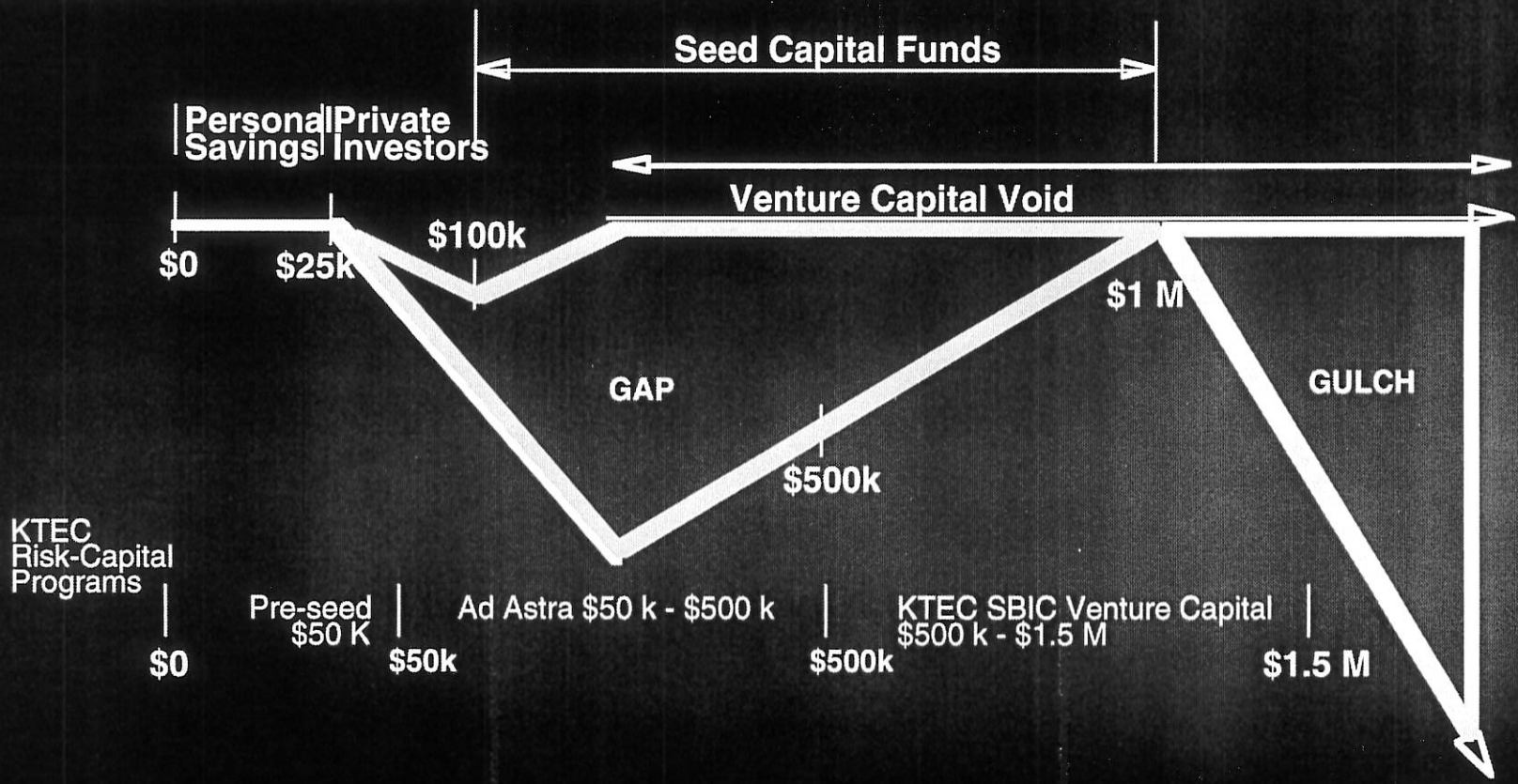
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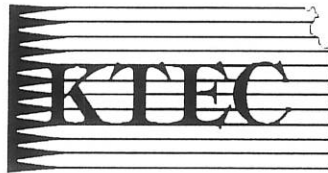


# The Venture Capital Gulch



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## Small Business Investment Company (SBIC)

**As a profit-motivated business, SBICs provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses.**

**There are two types of SBICs--regular SBICs and Specialized SBICs, also known as 301(d) SBICs. Specialized SBICs invest in small businesses owned by socially or economically disadvantaged entrepreneurs.**

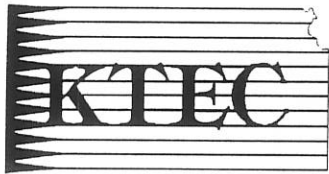
**Funding is available to all types of manufacturing and service industries.**

**Many investment companies seek small businesses with new products or services because of the strong growth potential of such firms.**

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## Small Business Investment Company (SBIC)

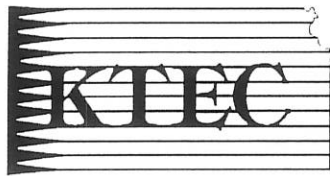
### Small Business definition by SBIC:

- A business with less than \$18 M net worth and \$6 M in after-tax profits for prior two years.
- 20% of new investments must satisfy the old test of \$6 M net worth and \$2 M in after-tax profits.

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## Small Business Investment Company (SBIC)

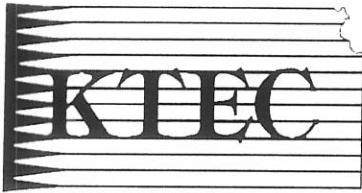
- A program created in 1958 to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations.
- SBIC's are licensed and regulated by the SBA, and are privately owned and managed investment firms.
- SBIC's use their own funds, plus funds obtained by borrowing with an SBA guarantee and/or selling their preferred stock to SBA.

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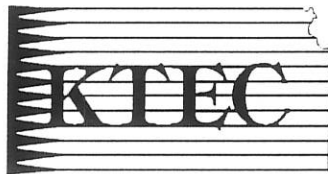


## Small Business Investment Company (SBIC) Recommendations

- **KTEC evaluate the SBIC Licensing Process**
- **Determine need for venture capital in high risk, technology-based Kansas businesses**
- **If positive decision is reached to file an application for license: KTEC needs to identify co-manager with venture capital experience.**

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## Small Business Investment Company (SBIC) Recommendations

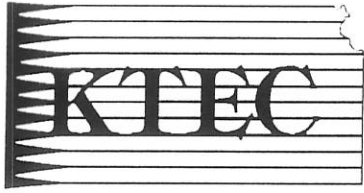
- Complete business plan for SBIC Application
- Identify potential investors for SBIC :
  - Idle Kansas Treasury Funds
  - KPRS
  - Foundations
  - Banks
  - S & L's
  - Insurance Companies
  - Private accredited investors
- Submit application to SBA
- Begin operation FY '96

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## Capital Availability Summary

**With more seed and venture capital money, Kansas can be a partner in helping even more companies succeed.**

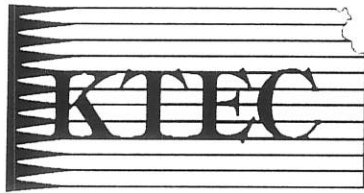
**The Ad Astra investments are potential winners. The fund managers have a distinguished track record.**

**The Kansas Legislature had the vision to create KTEC and empower it to succeed. To renew its trust and support with additional seed capital would complement the success Kansas has enjoyed to date.**

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## Capital Availability Recommendations

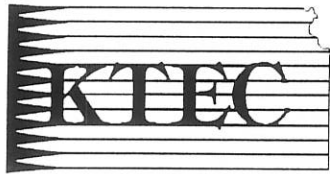
**Capital availability to businesses is of vital importance to sustain and continue to grow Kansas' economic base. It is with this objective in mind that we recommend the following action:**

**Make a commitment to financially support the growth of small businesses. The Ad Astra Fund is proving itself to be an effective vehicle for creating an excellent return on investment to Kansas. We thank the Governor and the Legislature for \$1.5 million in FY 1994 and \$1.5 million in FY 1995. This will enable us to continue building a stronger seed capital program for the state.**

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## Capital Availability Recommendations

**Gaps currently exist in the Kansas Commercialization Capital Network. We recommend the following:**

**An SBIR Bridge financing program to stimulate scientists and entrepreneurs to aggressively pursue federal funds that will leverage Kansas dollars.**

**Continued support of the new commercialization corporations will provide desperately needed business services and a new source for pre-seed and local seed capital funds.**

**The State of Kansas through KTEC needs to develop and financially support an SBIC technology-based venture fund that will protect our valuable assets and provide follow-on venture funds to promising technology-based companies.**

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