

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Chairperson Barbara P. Allen at 3:30 p.m. on February 1, 1996 in Room 423-S of the Capitol.

All members were present except: Rep. King - excused  
Rep. Packer - excused

Committee staff present: Lynne Holt, Legislative Research Department  
Nancy Kirkwood, Committee Secretary

Conferees appearing before the committee: Charles Warren, President, Kansas Inc.  
Steve Kelly, Director of Business Development Division,  
Department of Commerce and Housing  
Tom Blackburn, Vice President, Kansas Venture Capital, Inc.

Others attending: See attached list

Charles Warren, President, Kansas Inc., explained the system of Kansas Venture and Seed Capital Funds (Attachment 1).

Steve Kelly, Director, Business Development Division, (DOCH), provided background and information on the use of Kansas Income Tax Credits as part of the program function of the certified Kansas Venture Capital companies and local seed capital pools (Attachment 2).

Tom Blackburn, Vice President, Kansas Venture Capital, Inc., gave a history of the KVC ( Attachment 3 ).

The meeting adjourned at 5:05 p.m.

The next meeting is scheduled for February 5, 1996.



# Kansas Venture and Seed Capital System

KVCI

Ad Astra I & II Funds

Private Venture & Seed Capital Funds

Testimony of

Charles Warren, Ph. D  
President, Kansas, Inc.

before

House Committee on  
Economic Development

The Kansas Legislature

February 1, 1996

*Economic Development  
February 1, 1996  
Attachment 1*

## **Kansas Venture Capital, Inc.**

### **Program Description**

Kansas Venture Capital, Inc. (KVC) is a for profit licensed Small Business Investment Company (SBIC) that provides equity capital, loans, and management assistance to small businesses having substantial potential for growth and long-term equity appreciation. KVC was incorporated in 1976 as a subsidiary of the Kansas Development Credit Corporation through an initiative of the Kansas Bankers Association. KVC was restructured in 1987 subsequent to the risk capital formation initiatives passed by the Legislature.

KVC subsequently raised \$6.6 million in common stock from the private sector that was matched with \$5.0 million in preferred stock investment from the Pooled Money Investment Board pursuant to the Kansas Statewide Risk Capital System Act. The State's investment, protected at the end of CY 1994 by in excess of \$13.4 million in equity reserves, carried a book value of \$5.8 million.

The Kansas Department of Commerce & Housing maintains oversight responsibilities for KVC. The program does not receive any annual EDIF funding.

The statute which created Kansas Venture Capital, Inc. stated as its purposes:

"...to create a Kansas Statewide risk capital system to meet the special needs of the various regions of Kansas. This system will invest \$10,000,000 of state funds to create private risk capital for investment in smaller Kansas businesses. This investment will, in turn, lead to further growth, diversification and improvement of the Kansas economy in all geographic regions in a diversified range of primary sectors concerned with products, processes and services that create jobs, wealth and income for the benefit of Kansas and Kansans especially in nonmetropolitan areas of the State."<sup>1</sup>

### **Data Collection**

Kansas Venture Capital, Inc. provided Kansas, Inc. with information on the 18 firms that KVC had invested in between 1987, the year of its first investment, and the end of FY 1994.

### **Program Tracking System**

In order to remain certified, venture and seed capital companies are required to report their investment activity on an annual basis to the Business Development Division of the Kansas Department of Commerce & Housing.

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<sup>1</sup> Article 82, KSA 74-8201 - Kansas statewide risk capital system; purposes.

## Kansas, Inc. Data Base Tabulations

The following figures were generated from the Kansas, Inc. data base:

	FY 87	FY 88	FY 89	FY 91	FY 92	FY 93	FY 94
Firms Assisted*	2	4	5	2	3	1	1
Funds Invested	\$1.6 Mil	\$2.4 Mil	\$3.4 Mil	\$1.6 Mil	\$2.9 Mil	\$490K	\$325K

(Note: No investments were made in FY 1990.)

Total Jobs Created: 823

Total Jobs Retained: 1,198

Total investments: \$12.8 Million

\*A total of 18 separate firms were assisted with financing. These figures reflect those 18 firms receiving assistance over a period of years.

The statutory goal to increase investment in nonmetropolitan areas of the state has been largely achieved by KVICI. Of the 18 investments made, over one-third (7) were made in nonmetropolitan counties of the state and represented 36% of the investment during the evaluation period. Additionally, 45% of the 2,021 jobs created and retained by KVICI investee companies were from these seven companies.

The statutory goal which states the "this investment will, in turn, lead to further growth, diversification and improvement of the Kansas economy in all geographic regions..." has been partially achieved. KVICI has invested in five of the six Kansas regions. These investments took place in the Northeast (10), South Central (3), North Central (3), Southeast (1), and Southwest (1) regions of the state. No investments have been made in the Northwest region.

Of the 18 firms invested in, 13 were manufacturers and three were service firms. One firm was from the construction industry and one was in the transportation, communications, and utilities (TCU) sector. KVICI served a broad range of firm sizes, the largest group employed between 50-99 total workers (six companies).

In addition to the \$6.6 million in private funds, KVICI's \$12.8 million portfolio investment have leveraged in excess of \$12.7 million in private venture capital and equity, \$17.5 million in private sector bank debt, \$7.0 million in public market equity and \$1.4 million in CDBG funds.

### Survey Results

Kansas, Inc. contracted with Central Research & Consulting of Topeka to conduct surveys of clients of selected economic development programs to gather program impact and customer satisfaction data. Questionnaires were sent to 15 clients of KVICI which were identified by KVICI through the *life of the program* up to and including FY 1994. Responses were received from all 15 clients. (Three additional clients were identified by KVICI after the survey had already by conducted.)

Eighty (80) percent of the respondents reported that KVCII financing made an "essential or critical contribution" to the success of their projects. Thirteen (13) percent reported that more than 100 new jobs had been added as a result of the activity or project for which they received financing from KVCII. Twenty (20) percent said they added between 50 and 99 new employees, 13% added between 20 and 49, 27% added between 5 and 19, and a 27% said they added between 0 and 9 new employees.

Ninety-three (93) percent of the respondents reported sales increases of more than \$100,000 since the time they became financially associated with KVCII. Two out of three clients reported sales increases of more than \$1 million and one-third experienced sales increases of more than \$5 million since the time they became financially associated with KVCII. Eighty (80) percent said that without this type of investment pool, the project for which they received financing would "stopped or not proceeded." Twenty (20) percent said they project would have proceeded in about the same way using other financing.

Clients rated their overall satisfaction with KVCII using a scale of one to five with one being "very dissatisfied" and five being "very satisfied." A score of 3.8 is considered by private industry as the point at which corrective action is required.

Question: How satisfied are you with...	Average Rating
The knowledge and competence of the people you dealt with?	4.73
The speed or timeliness of the service or assistance you received?	4.67
The practical value or usefulness of the service you received?	4.67
Overall Satisfaction	4.67

KVCII received the highest customer satisfaction ratings of all the programs surveyed by Central Research & Consulting.

### Program Performance Measures

Kansas Venture Capital, Inc. does not submit an annual budget request document, therefore no formally reported performance measures were available.

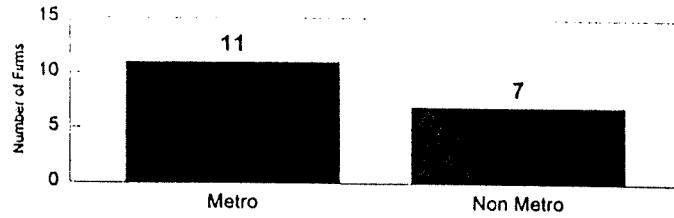
### Program Issues

See Chapter 9, Policy Options and Recommendations, page 9-13.

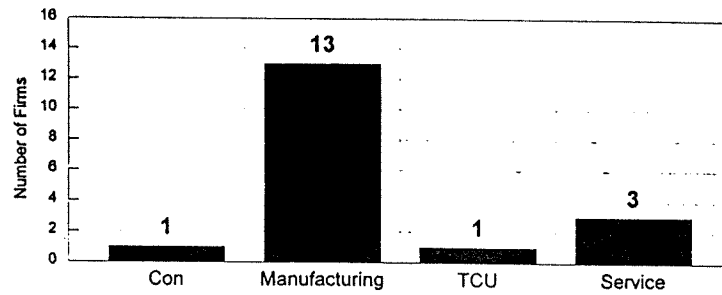
# Kansas Venture Capital, Inc. Client Profile

## Life of the Program

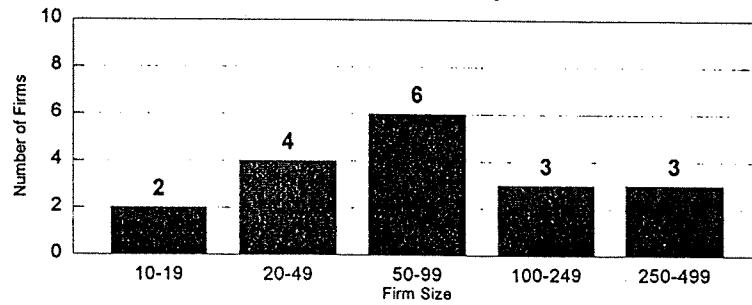
### Distribution of Assistance: Metro v. Non Metro



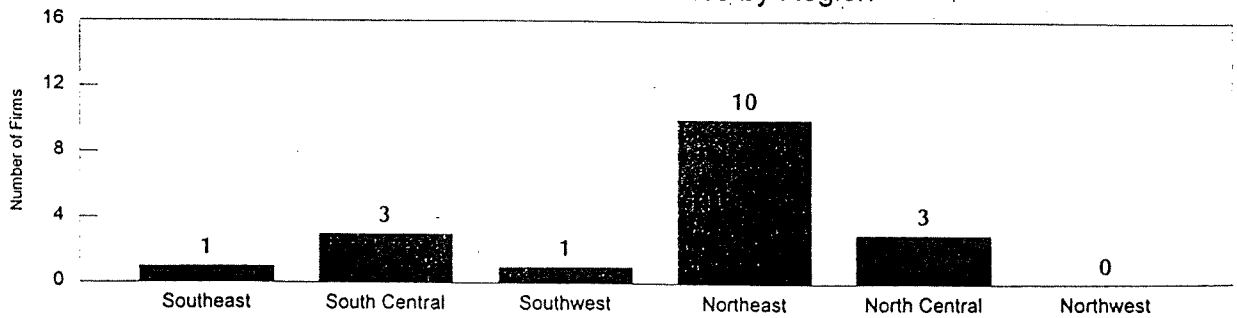
### Distribution of Assistance by Industry



### Distribution of Assistance by Firm Size



### Distribution of Assistance by Region



## Seed Capital (Ad Astra I & II)

### Program Description

The Ad Astra Seed Capital program was developed in two stages. The Ad Astra I program was established in 1988 and Ad Astra II was established in 1994. The purpose of the Ad Astra program is to provide seed capital for new high-technology business start-ups by leveraging private sector investment with public dollars. Both funds seek quality, high return investments in companies whose technology has a broad market appeal and a management team which is highly motivated, capable, and dedicated to the creation of a successful business.

### Funding/Staffing

The Legislature funded Ad Astra I with \$1.8 million in 1989. Ad Astra II was funded with \$1.5 million in FY 1994 and another \$1.5 million in state funds in FY 1995. A total of \$270,000 has been granted to the funds' professional management company through KTEC's Special Projects fund since FY 1993. Tax credits in the amount of \$348,000 also have been granted to private investors in the funds.

Direct private investment totalling \$1.76 million has been attracted to the funds as of the end of calendar year 1994. In addition, KTEC reports that the original \$2.6 million (\$1.8 million of state funds plus \$800,000 in private investment) which established Ad Astra I, has "attracted" or "leveraged" an estimated \$15,450,000 in additional investment capital into individual portfolio companies.

In 1988, Campbell-Becker, Inc. of Lawrence was chosen after a nation-wide search to act as the funds' professional management company. Their responsibilities, among others, include providing follow-on management services to portfolio companies and leveraging public funds with that of private sector investors.

Specific annual EDIF funding levels are listed below:

#### Historical Line Item EDIF Funding

	FY 92	FY 93	FY 94	FY 95
EDIF Line Item	0	0	\$1,500,000	\$1,500,000
Special Projects		\$170,000	\$100,000	0

### Data Collection

On May 5, 1995, a request was made to KTEC President, Rich Bendis and his staff, to provide information regarding clients of the Ad Astra Program. The request identified the types of client information needed, including company name, contact person, mailing address, major industrial classification, two digit SIC code, firm size, year of assistance, amount of



financial assistance provided (if any), and any employment and wage information related to the project. A deadline of May 26, 1995 was given for return of the information. The program management firm of Campbell-Becker, Inc. returned the information in a complete and timely manner. This information was entered into the Kansas, Inc. data base and is reported below.

### Program Tracking System

No information on the Ad Astra client tracking system was available at the time of this report. However, records returned to Kansas, Inc. were complete with information pertaining to jobs created and retained, wage information, nature of the project, name address and phone number of all client firms, and firm SIC code. It is assumed that Campbell-Becker utilizes a tracking system that is adequate for all reporting purposes.

### Kansas, Inc. Data Base Tabulations

KTEC provided the names and addresses of 16 companies that received assistance through the Ad Astra funds through the *life of the program*. Of these 16 firms, 14 were from metropolitan counties. Eleven firms were service sector firms, while five firms were from manufacturing. There were three instances where firm size was not known. Of the 13 remaining cases, all firms employed less than 100 workers. Ten of these 13 firms employed less than ten workers. Eleven of the 16 firms receiving assistance were from the Northeast region of the state, while four firms were from the South Central region. One firm from the North Central region also received assistance. The following figures were generated from the Kansas, Inc. data base of Ad Astra clients as reported by Campbell-Becker, Inc.

	FY 89	FY 90	FY 91	FY 93	FY 94	FY 95
Companies						
Assisted	4	1	2	3	4	3
Funds Invested	\$841,751	\$98,384	\$562,000	\$355,000	\$438,000	\$150,000

(Note: No investments were made in FY 1992.)

Total Jobs Created: 78  
 Total Jobs Retained: 98  
 Total investments: \$2.4 Million

\*A total of 16 separate firms were assisted with financing. These figures reflect one of those 16 firms receiving assistance during two years.

### Survey Results

Kansas, Inc. contracted with Central Research & Consulting of Topeka to conduct surveys of clients of selected economic development programs. Eleven (11) clients of the Ad Astra seed capital program were surveyed and five (5) responses were received for a response rate of 45%. Three of the five respondents were start-up companies and the remaining two were expansions of existing Kansas companies.

Three of the five reported that the presence of seed capital financing made an "essential contribution" to the success of their project; the other two credited seed capital financing as making a "substantial contribution" to the success of their projects. Two of the five respondents reported the creation of between five and nine (5-9) new jobs as a result of the Ad Astra investment; two reported creating between one and four (1-4) new jobs; and one firm said that no new jobs were created as a result of the Ad Astra investment. One firm reported increases in annual sales of between \$1 million and \$5 million since the time they became associated financially with Ad Astra. Two firms reported annual sales increases of between \$100,000 and \$500,000 and two others reported no increase in annual sales. All the firms responded that they would recommend the Ad Astra program to others.

### **Program Performance Measures**

The Ad Astra program's performance measures as reflected in KTEC's annual budgets report Ad Astra performance measures on a cumulative basis rather than reporting each year's activities separately as is consistent with the reporting methods of other programs. Campbell-Becker, Inc., the manager of the funds portfolio, was able to provide Kansas, Inc. with data for specific years, citing funds invested per year, jobs created and retained by year, and the total number of companies assisted by year. These figures, however, are not reported in KTEC's *FY 1997 Budget Document* in a year specific fashion..

### **Program Issues**

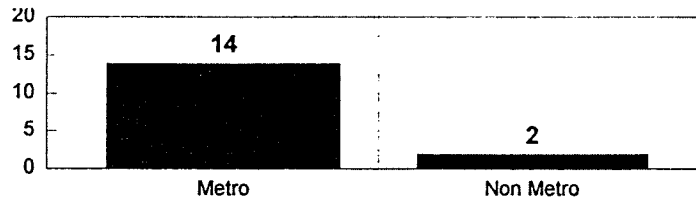
Private investment in the Ad Astra funds as of the end of calendar year 1994 totalled \$1.76 million. For each dollar the state has made in direct investment in the funds, only 36.6 cents in direct private investment has been leveraged.

Since FY 1989, a total of \$2.4 million has been invested in 16 Kansas firms. The Ad Astra funds have created 78 jobs and retained 98 jobs since 1989.

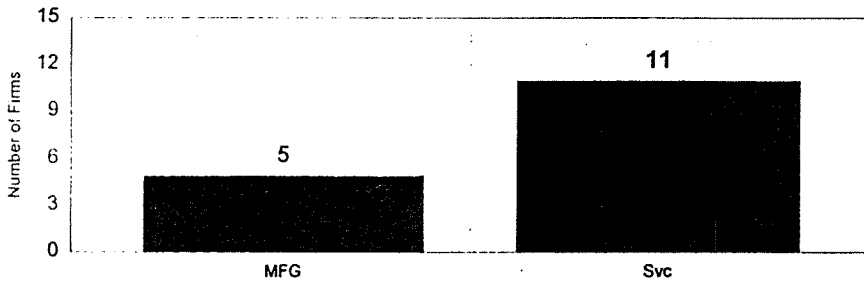
Return from Ad Astra Funds has been modest to date. KTEC maintains due to the fact that a seed investment is made in most cases to develop a product as well as a company with recognized market potential, but which has not yet been commercialized, several years are required before results are realized from seed capital investments.

# Kansas Technology Enterprise Corporation Ad Astra Seed Capital, Life of Program

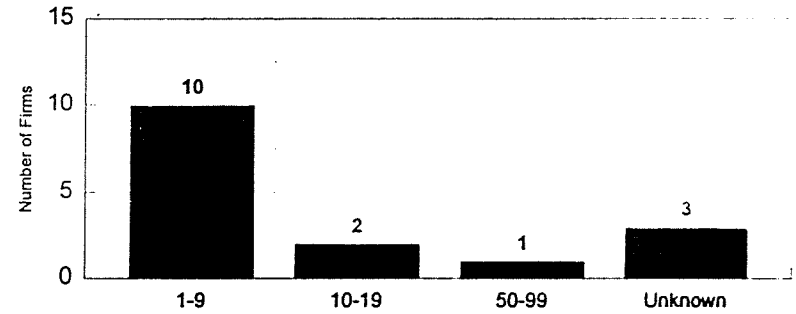
Distribution of Assistance: Metro v. Non Metro



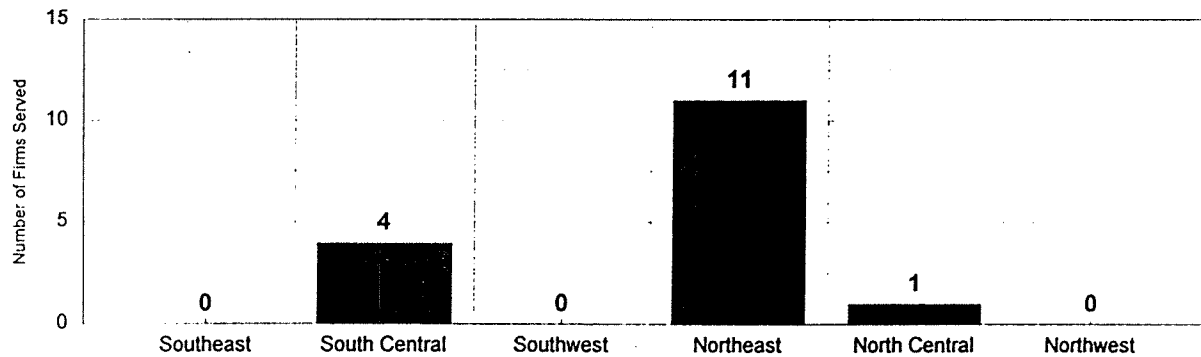
Distribution of Assistance by Industry



Distribution of Assistance by Firm Size



Distribution of Assistance by Region



## **Kansas Venture & Seed Capital Program**

### **Program Description**

Instituted in FY 1986 to increase the availability of risk capital in Kansas, this program provides income tax credits to encourage investment in venture and seed capital pools as a source of early stage financing for small businesses. The Business Development Division staff serves as a point of contact and source of referral for Kansas companies seeking risk capital. In addition, KDOC&H staff is involved in efforts to increase financing available to entrepreneurs and small business through the promotion of various events and activities, including co-sponsoring an annual venture capital forum, where entrepreneurs present their project to risk capital providers.

### **Funding/Staffing**

There is no direct line item allocation. Program administration and oversight is funded through the Business Development Division's operations budget.

### **Data Collection**

The Business Development Division provided Kansas, Inc. with information on 62 companies that received financial assistance from the state's certified venture and seed capital companies between the time the program was created and the end of calendar year 1994. (These do not include investments made by Kansas Venture Capital, Inc. and Ad Astra I & II which are covered separately in this report.) All 62 companies were entered in the Kansas, Inc. data base. A profile of these firms was developed and the results are charted at the end of this section.

### **Program Tracking System**

In order to remain certified, venture and seed capital companies are required to report their investment activity on an annual basis to the Business Development Division. The annual reports are submitted on a calendar year basis and have a two-fold purpose. One portion is used by the Department of Revenue to identify investors in the pools who are eligible for tax credits and the other portion contains information about the venture and seed capital companies' investments. The investment pools report the names of companies invested in, the amount of the investment, and anticipated job creation for new projects, and a running account of job creation for companies already in their portfolios.

No central electronic depository or data base has been created for this program, however, the annual reports mentioned earlier are physically maintained. As of 30

September, 1995 the program had not yet been integrated into the Department's project tracking system.

## Kansas, Inc. Data Base Tabulations

The following tabulations were generated from the Kansas, Inc. data base:

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94
No. of Firms*	2	3	7	23	19	15	16	14	13
Investment	\$239K	\$573K	\$1.1M	\$4.5M	\$1.9M	\$2.2M	\$2.1M	\$2.1M	\$3.3M

Total Jobs Created: 365

Total Jobs Retained: 564

Total investments: \$18.1 Million

\*A total of 62 separate firms were assisted with financing. These figures reflect those 62 firms receiving assistance over a period of years.

Eighty-three (83) percent of the firms served were located in metropolitan counties of the state. Activity was concentrated in the manufacturing sector (63%) and the service sector (24%). Ninety-five (95) percent of the investments took place in either the Northeast or South Central regions of the state.

### Survey Results

Central Research & Consulting (CRC) of Topeka sent questionnaires to 14 firms that had been invested in by six certified venture or seed capital companies during the most recent three year period. Ten of the 14 surveys were completed and returned for a response rate of 71%. Four of the ten described themselves as start-up companies. Four firms were expanding existing Kansas firms, and two were firms that were relocations of existing Kansas firms to a different city.

Sixty (60) percent of respondents reported that this funding source made an "essential contribution" to the success of their projects, and an additional 20 percent said the funding made a "substantial contribution." Forty (40) percent of the respondents reported their projects would most likely have stopped or not proceeded if such financing had not been available. Forty (40) percent said they would have proceeded on a smaller scale, and 20 percent said they would have proceeded in about the same way, but with other financing.

The ten respondents were asked how many permanent new jobs in Kansas were added at their firm as a result of the project for which they received investment pool financing. Two answered "none," six answered between one and nine (1-9), one answered between ten and 19 (10-19), and one firm reported adding between 50 and 90 new employees. Firms were asked about increases in annual sales since they became involved with their respective venture capital or seed capital company. Two firms reported no annual sales increases, one reported an increase of less than \$50,000, one between \$50,000 and \$100,000. Four firms reported increased in annual sales of between \$100,000 and \$500,000, one between \$500,000 and \$1 million, and one between \$1 million and \$5 million since the time they became associated financially with Ad Astra.

Clients were asked whether or not they would recommend a venture or seed capital company to another business like their own. Ninety (90) percent of the respondents to the survey said that they would recommend this method of financing to others.

### **Program Performance Measures**

Kansas, Inc. reviewed the performance measures used in the Department's *FY 1997 Budget Document* to report the program's contribution to economic development in the state and found three areas that should be addressed: 1) job creation and retention figures are not reported, 2) the number of firms invested in is not reported, and 3) the amount of investments made is not reported. In addition, the term "dollars leveraged in projects" should be better defined or quantified.

### **Program Issues**

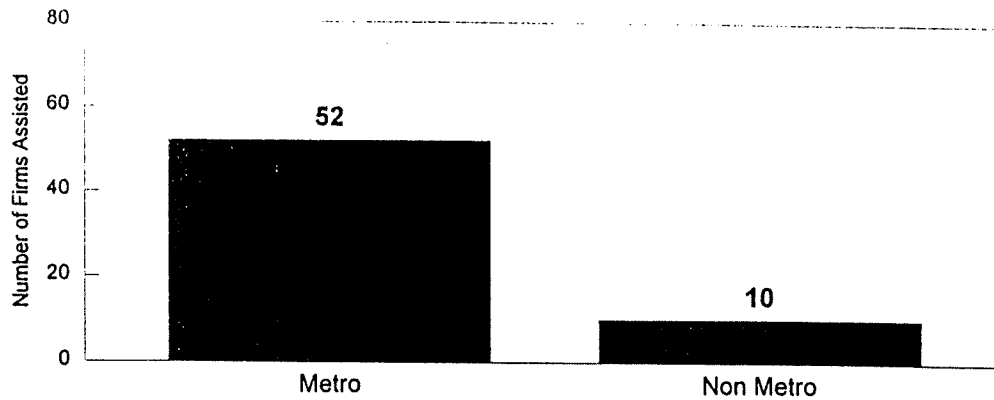
Since 1986, when the state's risk capital program was created, and the end of calendar year 1994, these private certified venture and seed capital companies have invested approximately \$18.1 million in 62 Kansas companies. Approximately 76% of the \$8.5 million in tax credits have been granted to these privately held private venture and seed capital funds.

At the same time, these entirely privately funded certified venture and seed capital companies have been the least successful type fund. Investments by these companies have created only 365 jobs over the life of the program (as reported by the investment companies to the Business Development Division), at a direct cost to the state in foregone tax revenue of nearly \$6.5 million, for a cost of \$17,731 per job.

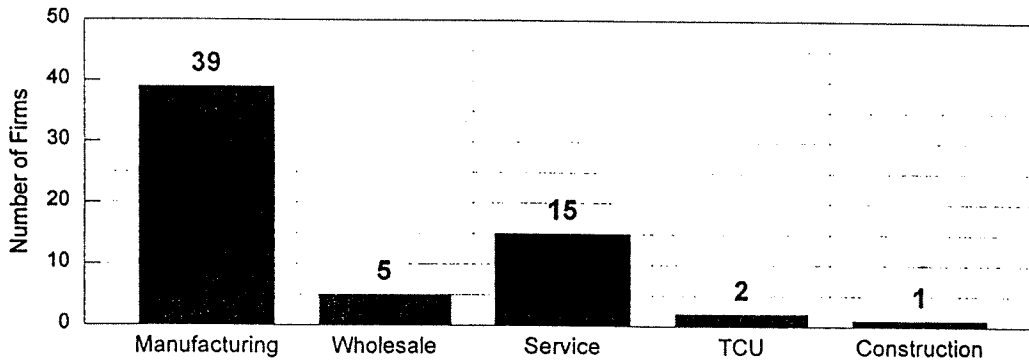
# Certified Venture & Seed Capital Co. Client Profiles

## Life of Program

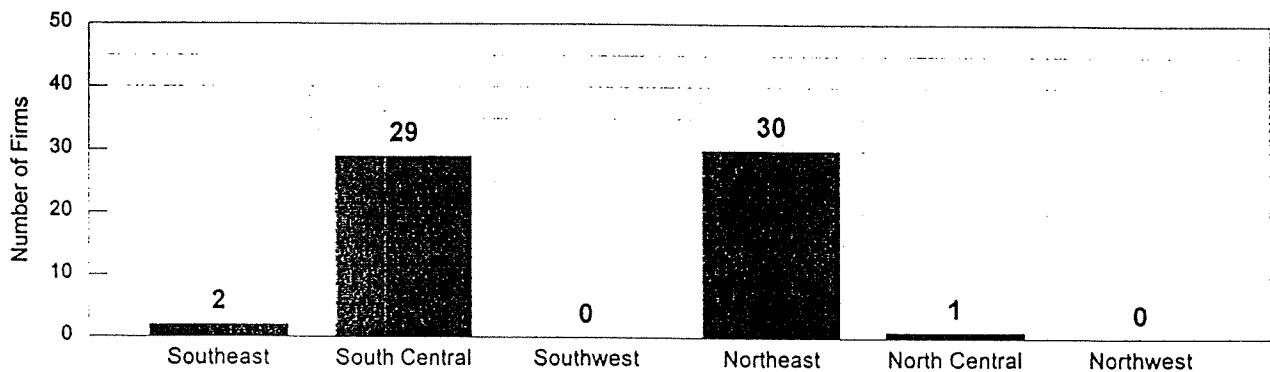
### Distribution of Assistance: Metro v. Non Metro



### Distribution of Assistance by Industry



### Distribution of Assistance by Region



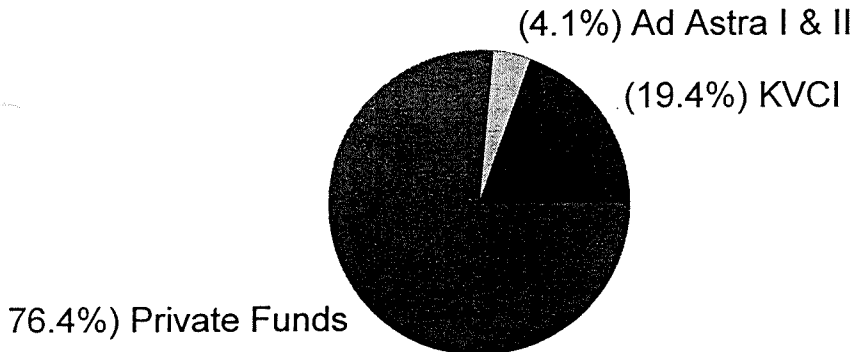
## Kansas Venture Capital & Seed Capital Funds

Fund	State's Capital Investment	Tax Credits Issued	Additional State Funds for Fund Management	Private Investment Made in Fund	Firms Served	Amount Invested in Company	Jobs Created/ Retained	Tax Credits per Job Created
KVCI (Thru FY 1994)	\$5,000,000	\$1,645,698	0	\$6,582,757	18	\$12,800,000	823/1198	\$1,999
Ad Astra I & II (Thru FY 1995)	\$4,800,000	\$348,105	\$270,000	\$1,761,275	16	\$2,445,135	78/98	\$7,924
Private Venture/Seed Capital Funds (Thru CY 1994)	0	\$6,471,973	0	\$25,887,890	62	\$18,100,000	365/564	\$17,731
TOTALS	\$10,650,000	\$8,465,776	\$270,000	\$34,231,922	89*	\$33,345,135	1106/1630*	

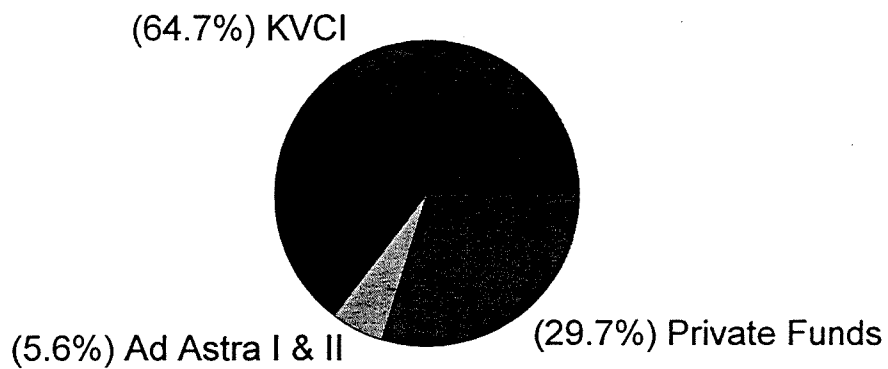
\* The figures in this column do not add to total shown since more than one fund invested in a number of the same companies.



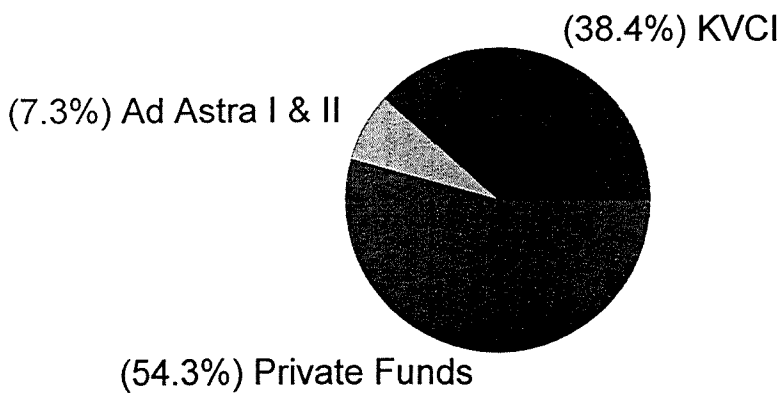
### Tax Credits Issued



### Jobs Created/Retained



### Total Investments Made in Firms



# KVCI Investments

Through FY 1994

Alias Name	Location	Industry	Size	Year of 1st Investment	Total Amt. Invested	Created	Retained	Type of Project
F Co., KVCI	Lawrence	CON	20-49	87	\$1,100,000	11	16	Expansion
O Co., KVCI	Overland Park	SVC	100-249	87	\$500,000	97	6	Expansion
G Co., KVCI	Olathe	MFG	50-99	88	\$780,000	16	69	Expansion
Co., KVCI	Kansas City	SVC	50-99	88	\$400,000	6	56	Expansion
J Co., KVCI	Topeka	TCU	250-499	88	\$300,000	142	150	Recruited
C Co., KVCI	Lenexa	MFG	20-49	88	\$915,000	37	0	Start-up
P Co., KVCI	Lyons	MFG	20-49	89	\$420,000	17	11	Expansion
B Co., KVCI	Hoisington	MFG	50-99	89	\$300,000	18	43	Start-up
H Co., KVCI	Wichita	MFG	10-19	89	\$970,000	6	12	Expansion
D Co., KVCI	Wichita	MFG	50-99	89	\$1,100,000	0	61	Expansion
Co., KVCI	McPherson	MFG	50-99	89	\$650,000	51	37	Expansion
M Co., KVCI	Overland Park	MFG	100-249	91	\$660,000	135	3	Expansion
L Co., KVCI	Osage City	MFG	250-499	91	\$950,000	187	124	Expansion
I Co., KVCI	Fort Scott	MFG	250-499	92	\$1,300,000	0	317	Expansion
R Co., KVCI	Wichita	MFG	250-499	92	\$1,100,000	58	217	Expansion
K Co., KVCI	Wellsville	MFG	50-99	92	\$525,000	21	53	Expansion
E Co., KVCI	McPherson	MFG	20-49	93	\$490,000	9	14	Expansion
N Co., KVCI	Lenexa	SVC	20-49	94	\$325,000	12	9	Expansion
					<b>\$12,785,000</b>	<b>823</b>	<b>1198</b>	

# Ad Astra I & II Investments

Through FY 1995

Co. Alias	Location	Industry	Year of 1st Investment	Total Investment	Created	Retained	Type of Project
A Co.	Shawnee Mission	SVC	89	\$261,558	4	2	Start-up
G Co.	Lawrence	MFG	89	\$197,250	4	2	Start-up
K Co.	Overland Park	SVC	89	\$359,610	4	2	Start-up
Co.	Lawrence	SVC	89	\$23,333	4	2	Start-up
N Co.	Lawrence	SVC	90	\$98,384	3	13	Start-up
E Co.	Topeka	MFG	91	\$250,000	45	45	Start-up
O Co.	Lenexa	MFG	91	\$312,000	1	10	Start-up
K Co.	Overland Park	SVC	93	\$140,000	4	2	Start-up
D Co.	Lawrence	SVC	93	\$100,000	0	0	UNK
F Co.	Overland Park	MFG	93	\$115,000	3	3	Start-up
Co.	Wichita	SVC	94	\$110,000	1	1	Start-up
C Co.	Winfield	SVC	94	\$205,000	0	3	Start-up
B Co.	Lenexa	SVC	94	\$108,000	2	4	Start-up
H Co.	Overland Park	MFG	94	\$15,000	0	0	Start-up
L Co.	Wichita	SVC	95	\$50,000	2	6	Start-up
J Co.	Wichita	SVC	95	\$50,000	1	1	Start-up
I Co.	Manhattan	SVC	95	\$50,000	0	2	Start-up
				<b>\$2,445,135</b>	<b>78</b>	<b>98</b>	

1-17

# Private Funds' Investments

Through Calendar Year 1994

Co Alias	Location	Industry	Year of 1st Investment	Total Investment	Created	Retained
B Co	Jefferson Co.	Mfg	86	\$75,000	3	0
A Co	Lawrence	Mfg	86	\$164,250	5	4
Co	Wichita	Mfg	87	\$841,523	4	0
C Co	Topeka	TCU	87	\$80,631	3	0
J Co	Wichita	Whsl	88	\$515,800	7	18
I Co	Lawrence	Mfg	88	\$324,083	2	0
G Co	Hutchinson	Mfg	88	\$200,000	2	0
F Co	Lawrence	Svc	88	\$584,383	5.5	0
E Co	Wichita	Mfg	88	\$400,000	30	21
H Co	Hutchinson	Mfg	88	\$300,000	4	0
Co	Silver Lake	Mfg	89	\$407,748	2	7
T Co	Wichita	TCU	89	\$300,000	5	8
R Co	Chanute	Mfg	89	\$50,000	12	5
Y Co	Hutchinson	Mfg	89	\$1,000,000	21	0
Q Co	Missouri	Svc	89	\$845,000	0	8
M Co	Johnson Co.	Svc	89	\$137,555	7	2
O Co	Wichita	Svc	89	\$300,000	19	0

Co Alias	Location	Industry	Year of 1st Investment	Total Investment	Created	Retained
AA Co	Wichita	Whsl	89	\$46,500	0	7
L Co	Lawrence	Svc	89	\$80,000	0	0
K Co	Chapman	Mfg	89	\$150,000	0	12
W Co	Wichita	Mfg	89	\$11,500	0	2
P Co	Overland Park	Mfg	89	\$189,000	2	0
LB Co	Wichita	Mfg	89	\$300,000	15	0
V Co	Lawrence	Mfg	89	\$82,750	1	2
U Co	Wichita	Mfg	89	\$857,584	3	0
N Co	Topeka	Mfg	89	\$300,000	9	5
Z Co	Overland Park	Svc	89	\$163,835	4	4
S Co	Lenexa	Mfg	89	\$605,505	1	2
DD Co	Lawrence	Svc	90	\$58,400	4	0
G Co	Lenexa	Mfg	90	\$50,000	0	18
EE Co	Valley Center	Mfg	90	\$16,667	16	0
JJ Co	Hutchinson	Mfg	90	\$150,000	8	0
FF Co	Pittsburg	Mfg	90	\$300,000	0	4
CC Co	Wichita	Mfg	90	\$240,000	7	0
II Co	Hutchinson	Mfg	90	\$110,000	4	0
KK Co	Wichita	Mfg	90	\$600,000	15	0
HH Co	Wichita	Svc	90	\$9,549	2	3

Co Alias	Location	Industry	Year of 1st Investment	Total Investment	Created	Retained
OO Co	Wichita	Mfg	91	\$426,000	0	60
MM Co	Wichita	Mfg	91	\$600,000	19	141
PP Co	Wichita	Mfg	91	\$10,000	3	0
LL Co	Topeka	Mfg	91	\$170,886	37	0
NN Co	Wichita	Mfg	91	\$150,000	1	0
RR Co	Prairie Village	Whsl	92	\$60,000	5	0
UU Co	Wichita	Svc	92	\$10,000	1	0
QQ Co	Overland Park	Whsl	92	\$719,000	14	0
YY Co	Arkansas City	Mfg	92	\$29,000	2	1
XX Co	Wichita	Mfg	92	\$8,000	2	3
SS Co	Topeka	Mfg	92	\$470,797	18	0
WW Co	Newton	Svc	92	\$20,000	0	3
TT Co	Lawrence	Con	92	\$205,510	1	0
VV Co	Topeka	Mfg	92	\$517,174	2	0
CCC Co	Lenexa	Svc	93	\$33,000	5	2
ZZ Co	Shawnee Mission	Unk	93	\$20,000	1	1
BBB Co	Wichita	Whsl	93	\$200,000	1	8
DDD Co	Overland Park	Mfg	93	\$360,316	10	150
AAA Co	Prairie Village	Mfg	93	\$900,000	0	0
EEE Co	Wichita	Mfg	93	\$150,000	3	0

Co Alias	Location	Industry	Year of 1st Investment	Total Investment	Created	Retained
HHH Co	Lenexa	Mfg	94	\$100,000	5	3
FFF Co	Wichita	Svc	94	\$200,000	3	0
JJJ Co	Topeka	Mfg	94	\$600,000	10	0
GGG Co	Lenexa	Svc	94	\$143,000	0	0
III Co	Topeka	Svc	94	\$1,170,000	0	60
				<b>\$18,119,946</b>	<b>365.5</b>	<b>564</b>

TESTIMONY TO:  
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

BY: STEVE KELLY  
BUSINESS DEVELOPMENT DIVISION

THURSDAY, FEBRUARY 1, 1996  
3:30 P.M.

*Economic Development  
February 1, 1996  
Attachment 2*



## TESTIMONY ON VENTURE CAPITAL TAX CREDITS

Madam Chair, Members of the Committee:

I have been asked today to provide background and information on the use of Kansas Income Tax Credits as part of the program function of the certified Kansas venture capital companies and local seed capital pools. It should, also, be noted that under the provisions of the venture and seed capital programs, that tax credits can be used to offset the tax liabilities imposed on insurance companies by K.S.A. 4-252 and K.S.A. 40-2801.

The Kansas Venture Capital Company Act and related legislation enacted by the Kansas Legislature in 1986 and 1987 were initiatives spurred by the Redwood-Krider Report, a report that identified a shortage of risk capital as a serious detriment to the growth of new and existing small companies in the state. As a result of that report, it was determined that initiatives would be pursued which would seek to address that risk capital deficit through primarily two means initially, one being the matching funding of Kansas Venture Capital, Inc., the other via a stimulus to the private sector provided by a Kansas Income Tax Credit equal to 25% of the private investment made in a Kansas certified fund. Tax credits through this program were tied to investment in the certified fund, **not** to the ultimate investment in the company(ies) receiving financing from such a fund. These venture capital funds, and seed capital pools were established with guidelines that restricted their investment in certain types of investment opportunities and established certain other requirements

Page #2, Testimony on Venture Capital Tax Credits

for their activities. In ensuing years, funds that combine a proportion of EDIF funding with the private investment were established. If such a fund is certified, the private investment in that fund is viewed on an equal basis with those funds consisting of strictly private investment. The list of funds currently certified includes 15 venture and 2 seed capital funds. This number includes the Ad Astra I and II and Sunflower Technology Ventures Funds established by KTEC and KVICI. Two other funds, which were once in the system were decertified due to failure to meet the performance guidelines.

When enacted, the legislation provided that no more than a total of \$50 million of private investment could qualify for tax credits under the Act. This total capacity was later impacted by subsequent legislation which set aside specific portions of the \$50 million cap, \$10 million each, for private investment by KVICI and the first Ad Astra Fund. These set-asides included time limitations and provisions for loss of reserved credits when the full amount of the set-aside for private investment was not utilized. Ultimately, difficulties in raising private capital for these two funds resulted in the loss of over \$12.5 million of the total \$50 million of investment capacity eligible for tax credits. The remaining

Page #3, Testimony on Venture Capital Tax Credits

\$37,325,000 represents the total private investment, which would qualify for tax credits. As of the end of calendar year 1995, \$35,673,099 of private investment was in place, eligible for just under \$9 million in credits. As of the last report made available through the Kansas Department of Revenue, approximately \$4.4 million in credits had been claimed since the initiation of the program in 1986.

The recently completed report by Kansas, Inc. identified performance through follow-up with portfolio investments made by the certified funds, including Kansas Venture Capital Inc. and the two Ad Astra funds. Their findings point to a wide disparity in the performance level of the funds which include public monies as part of the total funding vs. those composed of exclusively private investment. Differences in investment philosophy and focus may or may not explain such disparities. A bill has been introduced which seeks to provide targeted access to that portion of the original cap lost through provisions explained in the preceding paragraph. The venture and seed capital initiatives, when enacted, represented a financing option which was deemed to be unavailable at that time. The intervening years have seen improvement in capital availability, encouraged in some part, no doubt, by the initiation of these programs in the mid-1980s. Forums

Page #4, Testimony on Venture Capital Tax Credits

are now available which provide opportunities for entrepreneurs to identify financing opportunities. Additional sources of entrepreneurial assistance, both financial and technical, are now in place that were not available at the time when these programs came into being. It has been proposed that the remaining investment capacity, first established through this program, be made accessible for targeted investment via a technology-oriented fund established to foster development and growth of technology-oriented companies in the state. A more targeted and focused approach with our economic development programs can, in most cases, be a positive step. It is, also, our belief that for certain segments of the market, there do exist needs for additional venture capital resources. It is for you, as legislators, to debate that need and to determine the mechanism, if any, that should be utilized to address such a need if it exists.

We feel, also, that there is a public policy issue included in any debate over tax credits as tax credits are, in actuality, a check from the general fund to be cashed at some future date. As part of the deliberation, certain issues should be examined -- such as parameters for identifying qualifying technologies, measurement objectives and timelines, and discussion of conflicts of interest that could occur with capital seekers who have already accessed other state assistance.

# KANSAS

DEPARTMENT OF COMMERCE & HOUSING

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## CERTIFIED KANSAS VENTURE CAPITAL COMPANIES

Bill Graves, Governor  
Gary Sherrer, Secretary

Ad Astra Fund, L.P.  
1321 Wakarusa Drive #2102  
Lawrence, KS 66046  
(913) 841-7120  
Contact: Charlie Becker

Ad Astra Fund II, L.P.  
1321 Wakarusa Dr #2102  
Lawrence, KS 66049  
(913) 841-7120  
Contact: Charlie Becker

Research Capital Management Group I, Ltd., L.P.  
1321 Wakarusa Drive #2102  
Lawrence, Kansas 66046  
(913) 841-7120  
Contact: Charlie Becker

Kansas Venture Capital, Inc. (Main Office)  
Overland Park Office  
6700 Antioch Plaza, Suite 460  
Overland Park, Kansas 66204  
(913) 262-7117  
Contact: Rex Wiggins

Research Capital Management Group II, Ltd., L.P.  
1321 Wakarusa Drive #2102  
Lawrence, Kansas 66046  
(913) 841-7120  
Contact: Charlie Becker

01/29/96

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BUSINESS DEVELOPMENT DIVISION

700 S.W. Harrison Street, Suite 1300, Topeka, Kansas 66603-3712  
(913) 296-5298 FAX (913) 296-3490 TTY (913) 296-3487

2-6

CERTIFIED KANSAS VENTURE CAPITAL COMPANIES (Continued)

Devlin Venture Partners, L.P.  
P.O. Box 782170  
Wichita, Kansas 67278  
(316) 634-1800  
Contact: Dave Nesbitt

Jabara Ventures Group  
151 North Main  
Suite 1000  
Wichita, Kansas 67202  
(316) 263-4480  
Contact: Bob Mobley

Kansas Business Investment Company  
3706 S.W. Topeka, Suite 400  
Topeka, Kansas 66609  
(913) 266-8333  
Contact: Charles Tantillo

Carmen Venture Partners, L.P.  
P.O. Box 513  
Wichita, Kansas 67201  
(316) 687-3767 or (316) 262-4407  
Contact: Stan Gegen

DV Venture Investments, L.P.  
P.O. Box 782170  
Wichita, Kansas 67278  
(316) 634-1800  
Contact: Dave Nesbitt  
1312 North Webb, Wichita, 67206

Ruhfus Venture Capital Corporation  
8100 E. 22nd St. North, Building 500  
Wichita, Kansas 67226  
(316) 681-5100  
Contact: Roy R. Baker

Coleman Venture Capital, Inc.  
P.O. Box 1762  
Wichita, Kansas 67201  
(316) 261-3402  
Contact: Jim Beebe

CERTIFIED KANSAS VENTURE CAPITAL COMPANIES (Continued)

VanKan, Inc.  
11605 Manor Road  
Leawood, Kansas 66211  
(913) 451-6366  
Contact: Ms. Janie Van Der Tuuk

Harris Capital Fund  
5051 East Lincoln, Apt. 9B  
Wichita, Kansas 67218  
(913) 687-6430  
Contact: Mr. John B. Harris

Sunflower Technology Ventures, L.P.  
214 S.W. 6th, 1st Floor  
Topeka, Kansas 66603  
(913) 296-5272  
Contact: Mr. Richard A. Bendis

CERTIFIED KANSAS LOCAL SEED CAPITAL POOLS

Kansas Seed Capital Fund, Inc.  
155 N. Market, Suite 710  
Wichita, Kansas 67202  
(316) 262-8339  
Contact: Tom Hyde

Harris Seed Capital Fund  
5051 East Lincoln, 9B  
Wichita, KS 67218  
(316) 687-6430  
Contact: Jack Harris



**TOTAL CAP QUALIFYING FOR TAX CREDITS**  
**\$50,000,000.00**

\$10,000,000.00 Reserved for KVC1-Sunset 6/30/90  
- 6,582,791.00 Private Investment Raised

**\$ 3,417,109.00 Capacity Lost**

\$10,000,000.00 Reserved for KTEC Ad Astra I-  
Sunset 12/31/90  
- 742,418 Private Investment Raised

**\$ 9,257,582.00 Capacity Lost**

\$50,000,000.00 Total Capacity by Statute

\$12,674,791.00 Total Capacity Lost

**\$37,325,209.00 Capacity Remaining Which  
Qualifies for Credits**

PRIVATE INVESTMENT SUMMARY FOR VENTURE AND SEED CAPITAL

(Through January 15, 1996)

Research Capital Management I	\$ 1,575,600.00
Kansas Venture Capital, Inc.	\$ 6,582,791.00
Research Capital Management II	\$ 2,222,000.00
Devlin Venture Partners, L.P.	\$ 2,025,000.00
Jabara Ventures Group	\$ 1,500,000.00
Kansas Business Investment Company	\$ 8,505,288.00
Carmen Venture Partners, L.P.	\$ 1,770,000.00
DV Venture Investments, L.P.	\$ 1,500,000.00
Ruhfus Venture Capital Corporation	\$ 1,500,000.00
Coleman Venture Capital, Inc.	\$ 1,500,000.00
Kansas Seed Capital Fund	\$ 200,000.00
Harris Seed Capital Fund	\$ 700,000.00
VanKan, Inc.	\$ 3,200,002.00
Ad Astra Fund I, L.P.	\$ 742,418.00
Ad Astra Fund II, L.P.	\$ 650,000.00
Harris Capital Fund	\$ 1,500,000.00
Sunflower Technology Ventures, L.P.	NONE
<b>Total Investment in Qualifying Funds</b>	<b>\$35,673,099.00</b>

Investment Qualifying for	
Tax Credits - Total	\$37,325,209.00
Investment in Qualifying Funds	\$35,673,099.00
<b>Investment Capacity Remaining</b>	<b>\$ 1,652,110.00</b>



PRESENTATION

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House  
Economic Development Committee

February 1, 1996

By:

Thomas C. Blackburn  
Vice President

**Kansas Venture Capital, Inc.**

*Economic Development  
February 1, 1996  
Attachment 3*



## KVCI MISSION

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- **Build Shareholder Value**
- **Expand The Kansas Economy**



## KVCI OPERATING STRATEGY

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- Provide equity capital, loans and management assistance to Kansas-based businesses
- Equity oriented, risk-capital financing
- Generalized investment profile
- Diversified investment philosophy
- Return on investment strategy



## KVCI HISTORY

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- 1976 - Kansas Venture Capital, Inc. (KVCI) incorporated as private, a for profit licensed Small Business Investment Company (SBIC). Subsidiary company of the Kansas Development Credit Corporation (KDCC)
  
- 1987 - KVCI restructured subsequent to FY 1986 risk capital formation initiatives passed by Kansas Legislature
  
- 1987/1988 - KVCI raised initial private capital (common stock) investment of \$4.3 million through efforts of the Kansas Bankers Association (KBA)
  
- 1988 - Initial State of Kansas Preferred Stock investment of \$4.3 million from Pooled Money Investment Board (PMIB).
  
- 1990 - KVCI raised additional private capital of \$2.3 million (common stock)
  
- 1990 - Additional Preferred Stock investment of \$700,000 from the PMIB
  
- 1994 - KVCI recognized by the Inspector General of the SBA as one of nine SBIC's nationally in a "Best Business Practices" Report



## KVCI CAPITALIZATION

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### December 31, 1995 Capitalization

Common Stock	\$ 6.6 million
Preferred Stock	5.0 million
Retained Earnings/Appreciation	<u>1.8 million</u>
<b>Total Equity</b>	<b>\$13.4 million</b>

Book Value Per Share- \$11.58

(Subject to financial audit verification)



## OVERSIGHT AND REPORTING

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- Corporate governance set by State Statutes
- Board of Directors composition set by State Statues specific to KVCJ
- Annual reporting requirements to the Kansas Department of Housing and Commerce, Economic Development Committees, the Governor, and Kansas, Inc.
- Annual reporting requirements to the Investment Division of the U.S. Small Business Administration (SBA)
- Annual audit by the SBA
- Annual financial audit by independent accounting firm
- Quarterly Shareholders' Report to all common and Preferred shareholders





## INVESTMENT ACTIVITY

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- 15.6 million invested (135% of original capital)
- 22 companies in 12 counties throughout Kansas
- 8 companies located in non-metropolitan counties (40%)
- 5 of 6 regions throughout the State



## KVCI INVESTMENT PROFILE

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### Profile

### Percent

#### INVESTMENTS BY INDUSTRY

Technology (5)	18%
Industrial Products (7)	38%
Consumer Products (7)	31%
Business Services (2)	5%
Construction (1)	8%

#### INVESTMENTS BY SECTOR

Manufacturing (15)	73%
Service (4)	10%
Construction (1)	8%
Retail (2)	9%

#### INVESTMENTS BY STAGE

Start-up/Early Stage(4)	12%
Recapitalization/Turnaround (6)	36%
Expansion (6)	27%
Acquisition (6)	25%

#### INVESTMENTS BY COMPANY SIZE (Revenues)

\$Start-up to 1.0 Million (7)	25%
\$1.0 to 5.0 Million (6)	25%
\$5.0 to 10.0 Million (6)	32%
\$10.0 Million + (3)	18%

Based on investment activity through 12/31/95



## RETURN ON INVESTMENT

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- 93% of KVCI portfolio companies increased sales
- 93% of KVCI portfolio companies increased employment
- 2,264 jobs were created or retained by KVCI portfolio companies
- \$40.2 million in capital expenditures were made by KVCI portfolio companies
- \$30.0 million in taxes have been paid by KVCI portfolio companies
- The \$5.0 million State investment carried a book value of \$5.8 million at 12/31/95
- \$71,000 in cash dividends have been paid to date to the PMIB



## STATE INVESTMENT IN KVCI

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Cost of tax credits (actual)	\$1.65 million
Opportunity cost for PMIB Investment	<u>2.85 million</u>
<b>Total Cost</b>	<b>\$ 4.5 million</b>
Less:	
Capital appreciation for Preferred Stock	\$ (800,000)
Dividends paid on Preferred Stock	<u>(71,000)</u>
<b>Net cost to State</b>	<b>\$3,429,000</b>



## FINANCIAL LEVERAGING

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### Financial leverage through December 31, 1995:

- \$6.6 million private sector equity capital
- \$18.0 million private sector bank debt
- \$16.1 million private venture capital
- \$8.0 million in public market equity
- \$1.4 million in CDBG funding

Total financial leverage - \$50.1 million

State Preferred Stock investment - \$5.0 million

Leverage on the State's Preferred Stock investment - 10 to 1



## CENTRAL RESEARCH SURVEY RESULTS

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- 100% response rate from 15 companies surveyed
- 80% reported KVCI financing made an “essential or critical contribution” to their business
- 80% reported that their projects would have “stopped or not proceeded” without KVCI assistance
- 73% reported employment growth of 10 or more
- 33% reported employment growth of 50 or more
- 93% reported sales increases of \$100,000 or more
- 67% reported sales increases of \$1.0 million or more
- 33% reported sales increases of \$5.0 million or more
- KVCI had highest customer satisfaction rating of all programs surveyed (4.67/5.0)
- 93% reported they would recommend KVCI to other businesses

Based on information provided by Kansas, Inc.



## SUMMARY

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- KVCI is fulfilling its mission of building value for our shareholders and enhancing the economy of Kansas
- KVCI's financial condition is sound and stable, ensuring that it will remain a self-sustaining entity and not be dependent upon additional State funding to continue its activities
- The economic development record is strong and continues to build as KVCI's capital is redeployed into Kansas businesses
- The financial leverage of 10 to 1 on the State investment is significant
- The KVCI model is an economic development success story that works extremely well for the employers and employees of portfolio companies and the Kansas taxpayer

## KANSAS VENTURE CAPITAL, INC.

### INTERVIEW TRANSCRIPT

The following is a transcript of an interview with Tom Blackburn, Vice President of Kansas Venture Capital, Inc. KVIC is a \$13.4 million Kansas-based licensed Small Business Investment Company established through the efforts of the Kansas Bankers Association and the Kansas Legislature to provide equity capital, loans and management assistance to Kansas-based companies. The interview focused on venture capital investing, KVIC's general criteria and investment activity and the role of venture capital in enhancing a company's capital structure.

*Q. How would you describe venture capital?*

A. Venture capital is often thought of as early stage financing for start-up or young companies seeking to grow rapidly. Although this encompasses a portion of venture capital investing activity the industry covers a much broader spectrum. Venture capital is also used to fund expansion of companies that have already demonstrated the viability of their business but lack the equity base to obtain adequate bank financing to continue rapid growth. Venture investors also provide financing for turnaround situations and assist in funding acquisitions and management buyouts.

*Q. How does venture capital fit into a company's capital structure?*

A. Basically venture capital fills the financing gap that exists between the owner's equity in a business and what banks or other secured lenders are willing to lend on the assets of the business. Venture capital financing enhances the credit worthiness of a company as it is subordinated to secured creditors interests and thus reduces their risk exposure. Venture capital is often the difference between a deal being "bankable" or not and thus can enhance the opportunity for companies to obtain sufficient capital to finance their business plans.

*Q. So venture capital can also work in partnership with commercial banks on meeting the financial needs of companies*

A. Absolutely. In fact, traditional bank financing plays an important role in the financial structure of venture-backed companies. All of our portfolio companies have existing loans with commercial banks with one exception. The subordinated debt and equity provided by venture capitalists enhances a bank's ability to make loans by providing long-term risk capital without tying up collateral or straining cash flow. Venture capital dollars reduce the business' leverage ratios and therefore support greater levels of conventional bank financing. Also, a company's staying power and growth potential are significantly enhanced as venture capital firms have financial resources to provide for future financing needs if necessary. Senior lenders generally take comfort in the fact that venture capitalists bring deep pockets to a business which is a luxury not enjoyed by most of their existing customers.



***Q. How involved do venture capitalists get in to the operational affairs of the business?***

**A.** Venture capitalists are investors - not operators. I would characterize KVC I as an active investor. The level of involvement varies with each individual company. Generally, we hold a seat on the company's Board of Directors, require monthly financial statements and annual audits. At the other extreme, however, we occasionally get into intensive monitoring situations requiring significant day-to-day involvement in troubled situations to protect our investment. This hands-on approach is also of benefit to the secured lenders of venture-backed companies as we have both financial and managerial resources to assist a company through troubled situations. However, we are not predisposed to active operational control and our goal is to invest in good management and depend upon them to handle day-to-day business decisions. Our preferred and most important role is at the board level providing advice and counsel on strategic issues.

***Q. What are the most important factors in a venture capital investment?***

**A.** There are five factors: Management, management, management, market and product - in that order. Venture capitalists focus extremely hard on the experiences and abilities of the management team. There are thousands of good products and ideas every day, however very few will succeed without good strong experienced management behind them.

***Q. What rate of return do venture capital investors seek?***

**A.** The target rate of return depends upon the perceived risk of the investment. Venture capital investors try to properly match the potential return with the perceived risk. For example, at KVC I we generally target returns of 18% - 25% in lower risk profile deals such as acquisitions and expansion financings. Higher risk deals such as startups, turnarounds and early stage investments typically necessitate return requirements of 30% - 40%.

***Q. How are venture returns received?***

**A.** Venture returns typically come from a combination of current yield (from interest or dividends) and long-term capital gains on equity securities. As an illustration, let's assume we target a 20% internal rate of return for an investment. We might require 10% annually in interest or dividend payments from the company and expect to achieve the balance of the targeted return at the end of the investment cycle when equity securities are sold. As an equity investor, venture investors typically have to wait 5 to 7 years, perhaps longer, to achieve desired total returns. It takes time to build significant equity value in a company and the lion's share of venture capital returns ultimately come through the realization of capital gains on equity securities and not from current yield.

***Q. How does KVC I get leads for potential deals?***

**A.** Primarily through the extensive network of business relationships of the KVC I management team. Professional service providers such as accountants and attorneys are among the best referral sources.

Commercial and investment bankers, other venture investors, insurance professionals and entrepreneurs are also good sources. Others who occasionally provide investment leads are business and civic leaders, business brokers and economic development agencies.

***Q. What would be a typical profile of a venture capital deal?***

A. There are several possibilities that come to mind. A prime example would be a business that is seeking to expand either internally or through acquisition but lacks the collateral base and historical cash flow to justify bank borrowings sufficient to fund the entire expansion. Another candidate would be a company with good long term operating history but because of extraordinary situations such as a major customer problem or default, requires a recapitalization to ensure long-term survival or viability. Still another case would be any ownership driven situation, such as company principals seeking to sell their interests in a business, a purchase of a dissident shareholder's interest or assistance in financing employee purchases of a business. We also have relationships with several individuals and companies that continuously look for acquisition opportunities. We continually encourage our friends in the banking community to think of us on those deals that are just outside the parameters of a qualifying bankable credit. These are situations in which we can often create a good loan opportunity for a bank by adding venture capital investment dollars into the company. Generally, any scenario where a company or its principals lack sufficient equity or cash flow to adequately finance the business plan and candidates for venture capital investment.

***Q. What kinds of businesses does KVC I invest in?***

A. We are generalists and do not restrict our investments to any particular industry. With the exceptions of natural resources, real estate or financial institutions, we will consider investments in any field. Our preferred investment has historically been in manufacturing companies with approximately 80% of our investing activity in that arena. We have significantly broadened our investment focus and philosophy recently and are interested in diversifying into wholesale or distribution, high technology, service and will even consider selected retail opportunities. Some examples of industries in which we have invested to date are, plastics extrusion, sheet metal fabrication, industrial products manufacturing, aerospace parts machining, asphalt recycling and contracting, modular home and building manufacturing, software development, high tech electronic navigational equipment manufacturing, trucking and remanufacturing of electric motors and diesel engine parts.

***Q. What stages of development does KVC I invest?***

A. We are primarily interested in companies which have some kind of operating history. Typically, we invest in expansions of existing business, acquisitions and management or leveraged buyouts. We will also invest in turnaround situations if a significant revenue base exists. As far as start up or early stage deals, we typically do not do seed financing but will consider such early stage companies that have demonstrated some level of market validation or have a strong, experienced management team and a solid business plan.

**Q. How much money has KVCJ invested into Kansas businesses?**

A. Since 1987, we have invested in excess of \$15.6 million in 22 companies located in 12 counties throughout Kansas. We currently have 16 active investments in our portfolio with a cost basis of roughly \$10.5 million.

**Q. How have the portfolio companies performed?**

A. Overall we are pleased with the portfolio performance. To date we have realized five capital gains and had two write offs over a portfolio of 22. Additionally, we had the first of what we expect to be a number of successful portfolio companies transition to the public equity markets in December of 1993 through an initial public offering of stock. The existing portfolio is in healthy condition with a couple of exceptions and we have several companies with significant capital gain potential. We are pleased with the historical performance of the portfolio and have high expectations for future results as well.

**Q. How have these investments contributed to the economic development efforts in the Kansas?**

A. Our investment activity has made a significant contribution to the State's economy. Our portfolio companies have made more than \$45 million in capital expenditures and paid in excess of \$30 million in Federal, State and local income taxes. Equally as important has been the creation and preservation of approximately 2,200 jobs. Also noteworthy is that in excess of 40% of these jobs have been created in smaller Kansas communities with populations under 15,000. The annualized payroll of KVCJ's current portfolio of companies is approximately \$45 million and the cumulative payrolls paid since 1987 is approximately \$200 million. We are extremely proud of our investment portfolio and its contribution for the State's economy.

**Q. How does KVCJ stack up with other SBIC's?**

A. KVCJ was recognized in 1994 along with eight other SBIC's in the country as a model in a "Best Business Practices" study by the Inspector General of the SBA. The purpose of the study was to identify common characteristics of successful SBIC's in order to establish a set of guidelines to assist those who monitor the over 200 active SBIC licensees. This outstanding recognition is one our management team and Board of Directors takes great pride and one all of our stockholders can be proud of.

**Q. How does your application process work?**

A. We encourage an initial telephone or letter inquiry to discuss the basic fundamentals. If we perceive merit to the business, we typically request submission of a business plan to review prior to a meeting with management. We believe this approach provides us with the background necessary to serve as a basis for a productive discussion. We encourage all prospective companies to submit business plans for review. We currently have in excess of \$3 million in funds available for investment and are aggressively seeking and evaluating new opportunities.

For more information on Kansas Venture Capital, Inc.  
contact the Overland Park office at 913/262-7117.

*Q. What size companies does KVC I invest in?*

A. Historically, KVC I has focused 90% of investment activity in companies with revenues under \$10.0 million in annual sales. Many of these companies have grown well beyond \$10.0 million since KVC I involvement, thanks in part to expansion capital provided by KVC I and other capital sources made possible through the leveraging of KVC I dollars. Also noteworthy is that 30% of our investment activity has been into companies that were either start-up or early stage companies with revenues under \$2.0 million. At the other extreme we have invested approximately 10% of our dollars fundings into companies with revenues exceeding \$25 million - with the largest being \$55 million at the time of KVC I investment.

*Q. How much does KVC I invest in each deal?*

A. Our current investment limit is \$1.3 million. Our initial investment range is typically from \$500,000 to \$1 million. Our minimum deal size is \$250,000. We can address larger equity needs through our ability to originate and participate in syndications with other venture investors we work with. We at KVC I feel comfortable that on a good deal we could put together up to \$5 million in risk capital which covers almost any deal that will be done in Kansas.

*Q. How does KVC I structure its deal with the company?*

A. Venture deals are unique and therefore require flexible, equity oriented structures to ensure an adequate and appropriate overall financial structure. Investment vehicle used include common or preferred stock, convertible preferred stock or notes, common stock warrants or subordinated notes. Our investment in a company may include any combination of these securities and are generally structured with an anticipated holding period of 5 to 7 years.

*Q. What share of ownership does KVC I take in a company?*

A. That depends upon the particular deal. Each deal is tailored to the particular situation and arrived at through negotiation with the company. The percentage ownership can vary greatly from company to company but initially rarely exceeds 49%. We calculate our minimum acceptable share based on the required rate of return we view as commensurate with the risk of the potential investment. It is also important to point out that we typically structure buy backs in our investments that allow the company to repurchase our stock position once it achieves operational success and has the financial capacity to do so. To the business owner the bad news is that we do require an equity participation but the good news is that it is temporary equity and in successful companies the owner's equity in the business will grow substantially greater through the bigger pie theory than would have taken place without venture capital dollars.

*Q. Where does KVC I's capital come from?*

A. Our capitalization at December 31, 1994 was \$13.4 million. Of this equity base \$6.6 million in common stock is held by approximately 360 financial institutions, corporations and individuals that are predominately based in Kansas. Additionally, the State of Kansas has provided a \$5 preferred stock investment that is senior to the common stock of our private stockholders. The balance of \$1.8 million in equity consists of retained earnings and unrealized appreciation on portfolio investments. KVC I also has the ability to leverage the capital base through the SBIC program creating a pool potentially exceeding \$30 million.

## CORPORATE PROFILE KANSAS VENTURE CAPITAL, INC.

Kansas Venture Capital, Inc. ("KVCI") is a \$13.4 million licensed Small Business Investment Company ("SBIC") that provides equity capital, loans and management assistance to small businesses having substantial potential for growth and long-term equity appreciation. KVCI is a for profit entity whose investment interest lies in Kansas-based businesses or those seeking to locate in Kansas. KVCI's common stockholders represent approximately 360 financial institutions, corporations and individuals that are predominately based in Kansas. In addition, the State of Kansas has provided a preferred stock investment that is senior to the common stock of our private stockholders.

We do not restrict our investments to any particular industry and, with the exceptions of natural resources, real estate or financial institutions, consider ventures in any field. While many of our investments relate to manufacturing, we are also interested in wholesale or distribution, high technology and certain service or retail businesses. We provide financing at various stages of investment including early-stage investments, expansion financing of existing businesses, acquisitions and leveraged buyouts of existing companies and turnaround or recapitalization opportunities.

Since venture-backed companies have special financial requirements, we design flexible, equity-oriented investment structures and assist in securing additional financing sources to ensure the best possible capitalization to meet company needs. Investment structures include common or preferred stock, convertible preferred stock or notes, common stock warrants and subordinated notes. As an SBIC, we are prohibited from owning a controlling interest in our portfolio companies and we typically offer buyback options to our entrepreneurs.

KVCI can invest \$1.3 million directly into any one venture although initial targeted investments size is from \$500,000 to \$1,000,000. We can address larger equity needs in excess of our investment limit through our ability to originate and participate in syndications with other venture investors. Our minimum investment is \$250,000.

Although we do not seek to play an operational role in our portfolio companies, our role is not passive. We will generally hold a seat on the Board of Directors and through it and other means serve as a counselor on strategic or otherwise major decisions. Our management team possesses a broad range of venture capital and functional operating experience and skills and brings that experience to the ventures we back. Additionally, we are able to provide value added management assistance by utilizing our substantial network of contacts developed through associations with manufacturers, technical specialists, portfolio companies, other venture capitalists and professional service providers.

Our investment opportunities and inquiries come primarily via professional service providers such as CPAs, attorneys and business brokers. Additionally, banks and other financial institutions, investment banks, other venture capitalists and entrepreneurs are good referral sources for potential business ventures. Our management team has an extensive network and continues to build this base and expand our centers of influence.

## **KANSAS VENTURE CAPITAL, INC.**

### **Economic Development Highlights**

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

- **KVCI** has invested in excess of \$15.6 million in 22 companies located in 12 counties throughout Kansas since 1987. This represents over 135% of our Company's capitalization and completely fulfills requirements of the Kansas Venture Capital Company Act for retention of tax credits for our common stockholders.
- **KVCI's** portfolio companies have created and preserved in excess of 2,200 jobs since **KVCI's** involvement.
- Approximately 45% of employment of **KVCI's** current portfolio companies is with companies primarily based in smaller Kansas communities with populations under 15,000.
- The annualized payroll of **KVCI's** current portfolio companies as of December 31, 1995 was nearly \$46 million, and cumulative payrolls paid since 1987 have been in excess of \$210 million.
- **KVCI's** portfolio companies have made over \$40 million in capital expenditures and paid more than \$32 million in federal, state, and local taxes.
- **KVCI's** book value stood at \$11.58 per share at December 31, 1995. At this value, the State of Kansas' \$5 million preferred stock investment is protected by \$13.4 million in equity reserves.
- **KVCI's** direct contribution to the Kansas economy continues to escalate as the Company's investment activities increase and our portfolio investments mature. We are proud of **KVCI's** accomplishments and the vital role of our Shareholders, Board of Directors, and the Kansas State Legislature that have made **KVCI's** activities possible.