

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 5, 1996 in Room 423-S of the Capitol.

All members were present except: Rep. Flaharty - excused
Rep. Pottorff - excused
Rep. Benlon - excused
Rep. Long - excused
Rep. Packer - excused

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

Conferees appearing before the committee: Harold, Stones, Kansas Bankers Association
Charles Becker, Executive Vice President, Campbell-Becker, Inc.

Others attending: See attached list

Harold Stones, KBA, gave a historical perspective of the Kansas Bankers Association Task Force on Economic Development and how Kansas Venture Capital Inc. was formed(Attachment 1).

Charles Becker, Campbell-Becker, Inc., addressed the committee regarding the Venture Capital Tax Credits and discussed the performance of the Ad Astra Funds (Attachment 2).

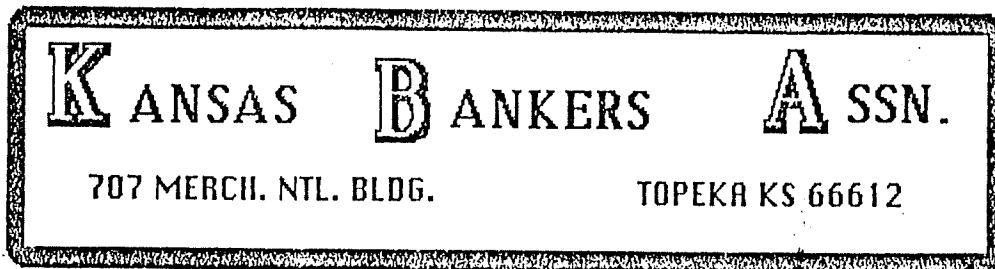
Tom Blackburn, KVIC, returned today with a written summary of Pros and Cons of the Redemption of the State of Kansas Preferred Stock Investment in KVIC; as requested by Rep. Wempe (Attachment 3).

Per Chairperson Allen's request; Tom Blackburn, KVIC, returned today with the information of the Return on Investment (ROI) performance measures monitored by KVIC management and Board of Directors(Attachment 4).

Chairperson Allen called the Committee's attention to the minutes of January 22 through February 1, 1996. Rep. Glasscock made a motion to approve the minutes. It was seconded by Rep. Wempe. The motion carried.

The meeting adjourned at 4:45 p.m.

The next meeting is scheduled for February 6, 1996.



May 15, 1986

REPORT TO THE GOVERNING COUNCIL
from
KBA TASK FORCE ON ECONOMIC DEVELOPMENT

Task Force Members are:

Ben Craig, Metcalf State Bank, Overland Park, Chairman
Jim Bartels, Farmers State Bank, Hays
Frank Becker, First National Bank, El Dorado
Gary Donley, Citizens Bank, Abilene
Emery Fager, Commerce Bank, Topeka
Sen. Frank Gaines, First National Bank, Fredonia
R. E. King, First National Bank, Winfield
Howard Loomis, Peoples Bank, Pratt
James Meyers, Admire Bank, Emporia
Pat Michaelis, Council Grove National Bank, Council Grove
Richard Powers, Garden National Bank, Garden City
Robert J. Spacheck, Pilsen State Bank, Lincolnville
John Sullivan, MidAmerican Bank, Roeland Park
William Thompson, City State Bank, Fort Scott
Kurt Watson, Bank IV, Wichita

I. History of the Task Force on Economic Development.

A. One year ago KBA President Deryl Schuster announced and formed this Task Force to directly confront our deteriorating economy. Its charge was to assist all Kansas bankers with the huge task of building and re-building the economy of our communities so our banks can continue to be viable, healthy institutions.

B. Our first meeting was last August. KBA had been meeting jointly with Kansas Chamber of Commerce and Industry and Kansas Farm Bureau leadership, so the ground for joint efforts in economic development had already been broken.

II. Results of Task Force Meetings.

A. At the very first meeting, a broad range of issues was presented and discussed.

B. Member Frank Becker discussed what would later be called the "Redwood Study", and which proved instrumental to the significant accomplishments of the Kansas Legislature in the 1986 Session.

Economic Development
February 5, 1996
Attachment 1

C. A very important issue to the KBA, and to our member banks was discussed, and needs to be clearly understood. **The KBA is experiencing a very fundamental change in focus---**from a strong concentration of effort in a rather narrow band of internal banking issues, to a broader less-sharply focused interest in a wide range of legislative matters which impact Kansas economic growth.

1. This "shift" was felt heavily in the 1986 legislative session, as a much greater lobbying burden was shouldered by the KBA. The economic development initiatives have placed a significant added burden to the staff and resources of the KBA.

III. The Task Force has held a total of five meetings.

A. We have met with, and received major presentations from many persons, institutions and agencies. Among them, in chronological order, were:

1. Dr. Tony Redwood, Director, Institute for Economic and Business Research, University of Kansas
2. Dr. Ed Flentje, Professor from Wichita State University, and Staff Director of the Public Agenda for Kansas.
3. George Doak, President of Kansas Development Credit Corporation, and Kansas Venture Capital Inc.
4. John Sullivan, Roeland Park; and Emery Fager, Topeka bankers representing KDCC very early became valuable and contributing persons and were asked to become part of the Task Force.
5. Belden Daniels, Massachusetts Institute of Technology, Boston, and special consultant to the Kansas Legislature's Joint Commission for Economic Development.
6. State Rep. David Heineman, member of the Joint Commission.
7. Susan Osborne-Howes, Kansas Small Business Development Centers.
8. Ron Nicholas, Pratt; and Gerald Cooper, Garden City, representing Kansas Association of Community Development Corporations.
9. Sam Campbell and Charles Becker, Campbell and Becker, Inc., Lawrence Venture Capitalists.
10. Ken Koger, Relmer and Koger, Kansas City, Investment Managers.
11. Marshall Crowther, Exec. Secretary, Kansas Public Employment Retirement System.
12. Steve Holstein, Kansas Department of Economic Development.
13. Mike Russell, Kansas City publisher, and Chairman of KPERS.
14. Jamie Schwartz, Kansas Department of Economic Development.
15. Governor John Carlin.

IV. The final product of the Task Force was to recommend to the Board of Directors, and subsequently to this Governing Council the following major policy matters:

A. That the KBA be a financial sponsor to the public-private funding of the Redwood Study. (Board approved a \$5,000 investment in this study.)

B. That the KBA greatly broaden its lobbying scope during the 1986 and future sessions to include economic development issues. (Approved by both the Board and the State Affairs Committee.)

C. That a resolution be prepared from the Task Force asking Congress to preserve the Small Business Administration. (Such resolution was sent in the name of the Task Force.)

D. That an information kit be assembled as soon as possible by the KBA and KDED designed to help bankers to identify resources and actions helpful to economic development activities.

E. That the KBA support all legislative bills which embody the nine initiatives set forth in the Redwood Study, and recommended by the Joint Legislative Commission on Economic Development. (A list and description of each initiative is attached. Every proposal was passed)

F. That the KBA accept, as a matter of the highest priority, the challenge embodied in S B 756, which is to raise \$10 million in voting, common stock in Kansas Venture Capital, Inc., a statewide venture capital company, in return for:

1. A matching amount from the State of Kansas in preferred, non-voting stock;
2. A 25% investment tax credit for common stock investment;
3. A tax exclusion for all dividends to be paid by KVCI.

G. That the KBA seek professional assistance and produce a video-tape of state officials and banking leaders to assist in the marketing of the KVCI plan to Kansas banks and other private sector groups.

V. The Executive committees and Boards of Directors of KDCC and KVCI are hard at work putting together a specific proposal. This proposal will be reviewed by the Task Force and the KBA Board of Directors, and will be transmitted to the banks of Kansas very soon. We firmly believe banks will enthusiastically support the formation of such a needed enterprise to get the economy in our local communities moving again. If banks are to prosper, much work needs to be done to build and re-build the economy which supports us.

We thank the members of the Task Force for their significant contribution, and respectfully urge the Governing Council to support this important agenda.

April 4, 1986

4

TO: Cary, Linda, Mary Jane, Debbie, Ann, Dana,

FROM: Harold

RE: Progress of Senate Bill 756 (\$10 million state funding for
Kansas Venture Capital, Inc.)

Our goal of "blanketing Kansas" in an informational blitz regarding
the strong benefits of SB 756 was hugely successful.

Thanks to you, we sent copies of our press release and our detailed
Question & Answer sheets simultaneously to:


- oAll Kansas Legislators
- oAll Kansas banks
- oAll Kansas newspapers (including weeklies) radio and TV stations.
- oLarge number of state and federal officials, agency heads and
similar "influence centers"
- oU.S. Congressional delegation and key Washington staffers
- o250 corporations, chambers of commerce, other organizations who
exhibit a statewide interest and are dependent on the state's
economy

This effort occurred yesterday with beautiful precision! You are all
to be congratulated for your obvious intelligence and ability!

Thanks also to the superb efforts of Bob Spachek, Jim Myers and
Emery Fager, who furnished so much expertise to the Senate Committee on
Assessment and Taxation, at about 7:00 last night, the Committee
UNANIMOUSLY recommended SB 756 favorably for passage! It's not over,
but it's a good start to accomplish this task which basically started with
only two weeks left in the legislative session.

We have the chance to make a real difference to the economy and
to all the people in Kansas-----a real **BIG** difference!

Again, thank you all for your excellent accomplishments!



Copies: KBA Board of Directors
KBA Task Force on Economic Development

5

Saturday March 29

THIS IS DRAFT NUMBER TWO. NEEDS TO BE FINISHED BY
THURSDAY, APRIL 3 IN TIME FOR HEARING ON SB _____

TO: KBA Board of Directors
KBA Task Force on Economic Development
Belden Daniels
FROM: Harold Stones

April 1986

TO: All Kansas Legislators
All Kansas banks
Other State Organizations
FROM: Harold Stones, Kansas Bankers Association

RE: Information regarding SB _____ and Kansas Venture
Capital, Inc.

The purpose of this memo is to set forth some commonly asked Questions and Answers regarding the proposal that the Kansas Legislature and the Kansas Bankers Association cooperate in funding a venture capital pool of money that will be used for attracting and retaining higher-risk, job-creating business enterprises into communities throughout Kansas.

The KBA has invited the Kansas Legislature to offer an "incentive challenge" to the banking industry by making \$10 million available in funding. If such a challenge is offered, the KBA will make every attempt possible to raise a matching \$10 million, in order to have a large state-wide venture capital pool. Such a concept is embodied in detail in Senate Bill _____.

Some of the questions commonly asked by both legislators and bankers are:

QUESTION: What is Kansas Venture Capital, Inc?

ANSWER: Kansas Venture Capital, Inc. (KVC) is now an existing corporation which is officially licensed as a Small Business Investment Company with the SBA. It is now in place, but is very insufficiently funded. Total common stock in KVC now totals \$1,075,240. This is very small and totally insufficient to accomplish any kind of meaningful statewide economic development.

QUESTION: Who runs KVC?

ANSWER: KVC is now managed by a President and Vice President-Treasurer. The President, who is CEO, is retiring this summer, so all prospective stockholders can anticipate having an input into management selection. The Board of Directors is composed of Kansas businessmen, including Kansas bankers, S&L executives, manufacturers, utilities. SB restructures the board to fit this new public-private concept.

(K)

1-5

QUESTION: Can the state's \$10 million investment be given some priority protection?

ANSWER: Yes, SB provides such protection by issuing preferred stock to the state, and common stock to private investors, and stating that in event of failure, all preferred stock is repaid before any common stock. Also, remember that the private sector must have its \$10 million common stock in place before the state puts up one cent!

QUESTION: How can both the state and the private investors insure that one of them does not profit from KVCII at the other's expense?

ANSWER: SB explicitly states that no dividend issued to preferred stockholders will be larger or smaller than dividends paid to common stockholders.

QUESTION: How can the state and bank investors insure KVCII will be well-managed and meet the objectives and goals desired?

ANSWER: This is achieved in any business organization by a Board of Directors. People from both the banking and non-banking private sector will sit on the Board, and insure the proper balance of risk, prudence, geography and aggressiveness. This is reasonable to expect. All stockholders will have their say as to who these people should be.

QUESTION: How would KVCII identify and ascertain which business enterprises to help?

ANSWER: Local organizations now in place (such as local, county or regional development organizations), local bankers, businessmen and officials will be very aware of KVCII. That will be one of the primary responsibilities of the management of KVCII. When local businessmen or officials recruit or receive inquiries from job-producing business enterprises, they would direct them to KVCII. KVCII would then collect the necessary information and documentation about such an enterprise and, if appropriate, package a financial assistance plan consisting of loan and/or equity investment designed to insure future success. Other states have found identification of possible investments exceeds funds available.

QUESTION: How can the private investors insure that the state will not demand the KVCII become a social agency type of enterprise, rather than a private venture capital firm to help those enterprises who show evidence of achieving success?

ANSWER: SB stipulates common stockholders only have voting rights for directors, but non-banker directors with a specific purpose to safeguard the state's interests must also be represented on the board.

QUESTION: Will this proposal help troubled banks?

ANSWER: KVCII will not invest money in troubled banks, or assume troubled bank loans, but it will help the entire economy of Kansas, including them. It will help all Kansans who have a job to offer or a job to seek! If we form such a pool of capital to assist new or existing-but-struggling

businesses with jobs to offer to locate in Kansas communities, the positive impact upon all people in those communities and the economic base of those communities are obvious.

QUESTION: What can KVCII do that banks cannot already do?

ANSWER: Banks may not now take an equity position in any new business enterprise. State and federal law and regulation prohibit it. Also, banks cannot lend to any business enterprise that does not project immediate cash flow, and which is under-collateralized. A bank, also cannot lend at such a low rate as to really help a fledgling enterprise over the long term. These loans would be the immediate target of the examiners, and the bank would be severely penalized.

And yet, many of our state's most successful enterprises started out precisely this way. This is why a KVCII must be formed that has the judgement and the expertise to determine that an enterprise may have a good chance for long-range success, if low-cost capital is provided, and time and patience are exercised. Such a fund should become profitable, but those profits will be over the very long term, and stockholders should certainly not expect any immediately large returns.

QUESTION: What are some specific examples of the kinds of enterprises that have been helped in other states by a similar Venture Capital Corporation?

ANSWER: (I need help from Belden Daniels to give us some real case history examples.)

QUESTION: If the state and private sector should form such an alliance as this, how much money would be available for long term investment in enterprises in Kansas communities?

ANSWER: KVCII is already a Small Business Investment Company, licensed by the Small Business Administration. This means that KVCII is eligible to receive up to 300% matching funds from the SBA (up to a \$35 million limit) for purposes of attracting and assisting small business enterprise to communities in Kansas. It appears that only the equity stock provided by the private sector is eligible for such matching, so if the State invests \$10 million; the private sector another \$10 million; and SBA matches with \$30 million, then a re-useable \$50 million of venture capital could be available---enough to make a sizeable difference to the future of this state!

QUESTION: What would be the terms of such SBA matching funds?

ANSWER: The terms are flexible. Such funds are really loans for up to 10 years at a low interest rate, depending upon the maturity, and the cost of funds in government markets. Interest must be repaid to SBA every six months, but principal is due only upon maturity. Low interest rates on the \$30 million from SBA, combined with the interest-free money from the state and private sector will make money available on terms that beginning enterprises can afford until they are on their feet and profitable.

QUESTION: Will the money from KVIC be used only on "sure-thing" types of enterprises located in urban areas?

ANSWER: No, and that is precisely why the state and the KBA need to cooperate to fund such a corporation statewide, and insist the Board be elected state wide to represent a statewide list of stockholders. If ownership is widely distributed, then this will insure that all communities both large and small, both rural and urban, from all parts of the state will have equally high priority in receiving assistance for those enterprises which are interested in locating there.

QUESTION: How can both the Legislators and Bankers be absolutely guaranteed that this will work?

ANSWER: We can't be! But what are the alternatives? Shall we just watch so many of our communities deteriorate? Shall we watch as families move away because there are no jobs to hold them? Shall we just watch the economy of our state continue to shrink, and our incomes, our retail base and our tax revenue shrink along with it-----or shall we put aside our suspicions, be willing to assume some degree of risk and work to develop the most carefully-conceived, public-private partnership in the history of our state? And then enthusiastically support it financially, and work like Sam Hill with it and for it to give it every chance of doing so very much good! The choices seem clear.

It is difficult to see how the taxpayers' money could be better spent for the advantage of that taxpayer, and how bank stockholders could better invest in their long-range betterment through building and re-building their communities.

FOR IMMEDIATE RELEASE

The Kansas Bankers Association (KBA) has recommended the Kansas Legislature challenge the Kansas private sector to provide \$10 million in risk capital for statewide economic development efforts. The KBA suggests the legislature invest \$10 million in a statewide venture capital corporation, provided banks and corporations match that contribution. The KBA then guarantees a strong effort to work to raise the money.

"The KBA believes this could be the very essence of public/private sector cooperation," said KBA President Deryl Schuster, and president of First National Bank, Liberal. "It's hard to imagine a more important objective than providing jobs for Kansas citizens," Schuster said.

The Legislative Commission on Kansas Economic Development was presented with the idea that the legislature challenge the Kansas banking industry by the KBA Task Force on Economic Development.

The total private capital raised from the private sector will be leveraged through the Small Business Administration on a three-to-one basis. Up to \$50 million would then be available as equity capital for the funding of a small business investment corporation established for the sole purpose of economic development.

"The venture capital pool would go a long way toward insuring that communities of all sizes, in all parts of Kansas, could be helped in their attempts at attracting companies with jobs to offer," said Ben Craig, chairman of the KBA Task Force on Economic Development and president of Metcalf State Bank, Overland Park.

Governor John Carlin, Representative David Heinemann, and other key state leaders involved in economic development were in attendance at the KBA task force meeting March 6 where the proposal originated.

The KBA Board of Directors later endorsed the recommendation.

KANSAS BANKERS ASSN.

707 MERCH. NTL. BLDG.

TOPEKA KS 66612

July 18, 1986

NON-BINDING LETTER OF INTENT

The KANSAS STATE BANK AND TRUST COMPANY of Wichita, KS declares this intention to invest in Kansas Venture Capital, Inc. (KVIC), a certified Small Business Investment Company. Parties understand that this is merely a current statement of intent, that it is non-binding, but that officials of the Kansas Bankers Association may use this intention in visitation with other future investors. Such investment would be similar to the following:

CAPITAL x .65%	CURRENT KVIC STOCK	NET INVESTMENT
107,960	0	107,960

Such investment is predicated upon the return of \$48,000 from Kansas Development Credit Corporation, which represents 80% of KDCC's Line of Credit from this bank, and upon the retention of authority to receive a tax credit equal to 25% of KVIC Net Investment from Kansas Privilege Tax liability over at least four years. We also understand that present law exempts any dividends paid by KVIC from the Kansas Privilege Tax.

(name)

(title)

(date)

TESTIMONY TO:

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

BY: CHARLES A. BECKER

EXECUTIVE VICE PRESIDENT

CAMPBELL-BECKER, INC.

FUND MANAGERS FOR THE AD ASTRA FUNDS

MONDAY, FEBRUARY 5, 1996

*Economic Development
February 5, 1996
Attachment 2*

Good afternoon Madam Chair and Members of the Committee:

My name is Charles Becker. I am Executive Vice President of our company, Campbell-Becker, Inc. which manages the Ad Astra Funds. I have been invited to comment to the Committee in regard to the Venture Capital Tax Credits and to briefly discuss the performance of the Ad Astra Funds.

As you have noted from previous testimony from Mr. Kelly, the tax credits were authorized by the Kansas Legislature to act as an incentive for investors to put risk or venture capital dollars in Certified Venture Capital Funds. The Funds would invest these monies primarily in Kansas companies which have significant growth potential.

In my opinion, the tax credits played an important role in our efforts to attract capital to both Ad Astra Funds. In talking to investors, the response was the tax credit availability played a very positive role in their investment decision. The tax credits do make the investment proposal very attractive especially since the investor can immediately see a 25% return on this high risk investment. In addition, the flexibility to sell the credits to a bona fide Kansas taxpayer allows for tax exempt foundations and pension funds to invest with a similar incentive. Also, insurance companies are included which increases the size of the potential investor pool. I would strongly recommend a "resurrection" of the unused tax credits which were authorized for the Ad Astra Fund and make them available to the new Sunflower Technology Ventures Fund. I would encourage my colleagues at Kansas Venture Capital Inc. to join me in this recommendation. In my opinion, these credits would definitely enhance the opportunity for success of the Sunflower Fund's capitalization process.

In regard to the performance of the Ad Astra Funds' portfolios, I would like to emphasize the position of a seed capital fund on the "continuum of finance." These investments of seed capital are usually the first official or institutional dollars invested in the company. The risk is thus greater than later stage investments by large venture capital funds, mezzanine finance sources and, of course, commercial banks with a security position. The first few years of a new company's existence are filled with many opportunities to falter badly or even fail. Things change very rapidly, especially in the world of technologies. In fact, for some companies it can be overnight. These young enterprises may not be capable of responding fast enough with enough horsepower (usually capital) or manpower to ride out the storm. But with the right resources such as those provided by the KTEC infrastructure and active committed seed fund investors, these companies have a real tangible chance to come through the difficult times. I would like to emphasize the fact however, that it takes TIME and PATIENCE coupled with the resources just mentioned. As our colleague Tom Blackburn noted in his written remarks to the Committee, "venture investors typically have to wait 5-7 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 and not from current yield." I would simply add the term "seed capital" to his comments to emphasize our position as well.

The investments of the Ad Astra Funds are still relatively "young." These companies are still maturing and need continued almost daily support in achieving their objectives of stability and eventually growth in shareholder value. The Funds have made investments in a total of twenty-seven (27) early stage advanced technology companies. A total of \$3,850,475 has been invested in the portfolios as of February 3, 1996. It is estimated that the Funds have leveraged a total of \$27.1M in additional monies into the

portfolios from outside sources including follow-on investments, grants and debt financing. Total revenues generated by the portfolio companies as of the end of FY95 was approximately \$11.5M. Four (4) companies have been written off because of lack of performance, (\$658,557.00). The Funds have received \$511,262.00 from the portfolio for distribution to the investors which was done on December 31, 1995.

It is anticipated the Funds will continue to realize gains in the value of the portfolios and as the circumstances warrant, distributions will be made available to the investors. I would like however, to emphasize again that these types of investments require more TIME and more PATIENCE than looking for current yields. Our investments are sowing the seeds for the future "crops" of viable technology growth companies here in Kansas. Like our farmers, it is extremely difficult to judge the real value of their future crops based upon the seeds. It takes a number of tools which have to be used to reach a successful harvest; cultivation, fertilization, weeding, rapt attention and vigilance and some good old fashioned luck. But most important of all, tenacity and determination. As seed capital managers we operate in a very similar fashion.

Thank you very much for your attention, interest and support. I am happy to address any questions which you may have now or in the future.

TOTAL CAPITALIZATION OF THE AD ASTRA FUNDS

AD ASTRA FUND, L.P.	\$2,625,596.94
KTEC CONTRIBUTION	\$1,799,340.97
PRIVATE CONTRIBUTION	\$ 826,255.97
AD ASTRA FUND II, L.P.	\$3,888,888.80
KTEC CONTRIBUTION	\$2,900,000.00
PRIVATE CONTRIBUTION	\$ 988,888.80

**TOTAL COMPANIES IN WHICH INVESTMENTS
HAVE BEEN MADE AS OF 01/01/96**

AD ASTRA FUND, L.P.	12
AD ASTRA FUND II, L.P.	15

TOTAL DOLLARS INVESTED IN PORTFOLIOS AS OF 02/01/96

Totals include accrued and refinanced interest, accrued interest
on preferred stock and CD's pledged as collateral

AD ASTRA FUND, L.P.	\$2,554,528.00
AD ASTRA FUND II, L.P.	\$2,427,371.00

TOTAL ESTIMATED DOLLARS LEVERAGED BY BOTH FUNDS

AD ASTRA FUND, L.P.	\$17,000,000.00
AD ASTRA FUND II, L.P.	\$10,100,000.00

**TOTAL REVENUES OF PORTFOLIO COMPANIES
FY 95**

AD ASTRA FUND, L.P.	* \$5,812,800.00
AD ASTRA FUND II, L.P.	* \$5,632,700.00

* We are awaiting the compilation of the end of the year financial reports from each
of the portfolio companies.

JOBS CREATED AND/OR RETAINED AS OF 02/01/96

AD ASTRA FUND, L.P.	138
AD ASTRA FUND II, L.P.	94

TOTAL AMOUNT OF WRITE OFF'S AS OF 02/01/96

AD ASTRA FUND, L.P.	\$648,000.00
AD ASTRA FUND II, L.P.	\$ 10,557.00

DISTRIBUTION AMOUNTS AS OF 12/31/95

AD ASTRA FUND, L.P.	\$ 40,222.00
AD ASTRA FUND II, L.P.	\$471,040.00

AD ASTRA FUND, L.P.

# Investments	1989	1990	1991	1992	1993	1994	1995
NEW	6	2	2	1	0		1
FOLLOW-ON	0	4	3	5	2	1	
AMOUNT OF INVESTMENTS	\$460,628	\$366,900	\$765,600	\$694,600	\$157,800	\$115,000	Negotiating value of stock

AMOUNT OF INVESTMENT INCLUDES ACCRUED AND REFINANCED INTEREST, ACCRUED DIVIDENDS AND CD'S PLEDGED AS COLLATERAL

AD ASTRA FUND II, L.P.

# Investments	1993	1994	1995	1996
NEW	3	4	8	0
FOLLOW-ON	0	1	2	3
AMOUNT OF INVESTMENTS	\$355,000	\$310,255	\$1,712,116	\$50,000

AMOUNT OF INVESTMENT INCLUDES ACCRUED AND REFINANCED INTEREST, ACCRUED DIVIDENDS AND CD'S PLEDGED AS COLLATERAL



Kansas Venture Capital Incorporated

Rex E. Wiggins
President

Thomas C. Blackburn
Vice President

Marshall D. Parker
Vice President

February 5, 1996

The Honorable Jack Wempe, Ranking Minority Member
House Economic Development Committee
Room 284-W, State Capitol
300 SW 10th Avenue
Topeka, KS 66612-1504

Dear Representative Wempe:

Per your request, enclosed is a summary of Pros and Cons of a scenario involving the redemption of the State's Preferred Stock investment in KVCI. Should you or the Committee require additional information or more detailed testimony, we would be happy to accommodate your request.

I hope the enclosed information is helpful to you and the Committee members. Please call me at (913) 262-7117 if I can be of further assistance.

Very truly yours,

A handwritten signature in cursive script, appearing to read "T.C. Blackburn".

Thomas C. Blackburn
Vice President

TCB:cjl
Enclosures

*Economic Development
February 5, 1996
Attachment 3*

PROS AND CONS
of the Redemption of the
State of Kansas Preferred Stock Investment in KVICI

PROS

1. The State would receive approximately \$5.8 million from its original \$5.0 million investment - a profit of \$800,000 above the dividends received to date. (Assumes redemption at 12/31/95 book value).
2. The State would have funds to deploy for other endeavors.

CONS

1. The State would be challenged to find an alternative for funds that could generate both the economic development and financial returns it now receives from KVICI.
2. KVICI's capitalization and funding capacity would be dramatically reduced and negatively impact new investment activity.
3. The common stockholders would likely begin the decertification process and ultimately decrease Kansas-based investment activity, particularly in non-metropolitan communities.
4. KVICI shareholders, absent State participation, may decide to liquidate the company which would dramatically reduce the amount of venture capital in the State of Kansas.
5. The odds would increase significantly that KVICI would become a subsidiary of a non-Kansas based financial institution. Due to consolidation, over 40% of KVICI's common stock is currently owned by non-Kansas based banks. At some point this stock will likely be owned by a New York (or other major money center) bank that will not likely be interested in venture capital opportunities in Kansas.



Kansas Venture Capital Incorporated

Rex E. Wiggins
President

Thomas C. Blackburn
Vice President

Marshall D. Parker
Vice President

February 5, 1996

The Honorable Barbara Allen
Committee on Economic Development
Kansas House of Representatives
State Capitol, Room 174-W
Topeka, KS 66612

Dear Madam Chair:

Per your request, enclosed is information of the Return on Investment (ROI) performance measures monitored by KVC management and Board of Directors. As you will note, several specific performance measures are tracked to ensure that the goals and objectives of the Legislature and stockholders are being fulfilled.

Also enclosed is enclosed our preliminary 1995 ROI data. The data will be released after final audit verification (in mid-February) and included in our 1995 Annual Report.

I hope the enclosed information will be of assistance to you and the House Economic Development Committee. Should you have additional questions or if I may be of further assistance to you, please call me at (913) 262-7117.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Tom Blackburn", written in a cursive style.

Thomas C. Blackburn
Vice President

TCB:cjl
Enclosures

*Economic Development
February 5, 1996
Attachment 4*

RETURN ON INVESTMENT PERFORMANCE MEASURES

Kansas Venture Capital, Inc.

1. BOOK VALUE - FINANCIAL ROI

Measurement criteria: Book Value

Frequency of measurement:

- Tracked internally by KVCII management and Board on a monthly basis
- Reported to stockholders (unaudited) on a quarterly basis
- Audited by an independent auditing firm annually and reported via an annual report to all common and preferred stockholders, the Governor, the joint and standing legislative committees on economic development, the Kansas Department of Commerce and Housing (KDOC&H), the State Treasurer, the PMIB, Kansas, Inc. and the public.

Reason for measurement:

- KVCII was established with an objective of becoming a self-sustaining entity into perpetuity. The primary purpose of measuring book value is to track the financial stability of KVCII and ensure the accomplishment of the self-sustaining nature. Book value allows interested parties the ability to track the financial stability and value of KVCII common and preferred stock investments. Traditional financial ROI measurement would include dividend distributions to common and preferred stockholders. KVCII has historically maintained a conservative dividend policy (approximately \$165,000 to date) in favor of retaining earnings for additional investment into Kansas-based businesses.

2. INVESTMENT ACTIVITY

Measurement criteria:

- Cumulative dollars invested by KVCII into Kansas based companies.

Frequency of measurement:

- Tracked internally by KVCII management and Board on a monthly basis
- Reported to stockholders (unaudited) on a quarterly basis
- Audited by an independent auditing firm annually and reported via an annual report to all common and preferred stockholders, the Governor, the joint and standing legislative committees on economic development, the Kansas Department of Commerce, the State Treasurer, the PMIB, Kansas, Inc. and the public.

Reason for measurement:

- Ensure sufficient investment activity to maintain certification of Kansas Certified Venture Capital Company status for retention of stockholder tax credits. KVCII fulfilled all activity benchmarks in 1992, well ahead of the required schedule.
- Ensure sufficient investment activity to remain active as a licensed SBIC.
- Measure the geographic distribution objective established in the Kansas Statewide Risk Capital Act (RCA).

3. **JOB CREATION AND RETENTION**

Measurement criteria:

- Jobs created and retained by KVCII portfolio investment activity.

Frequency of measurement:

- Detailed employment schedules are provided to KVCII management by portfolio companies on an annual basis. A detailed report is then provided to KDOC&H pursuant to statute. Aggregated employment data is distributed to stockholders, the Governor, the standing and joint legislative committees on economic development, KDOC&H, the State Treasurer, and Kansas, Inc. through an annual report and selected mailings.

Reason for measurement:

- Fulfill specific statutory reporting requirement to KDOC&H.
- Measure the performance objective of job creation and retention set forth in the RCA.

4. **EMPLOYMENT CENSUS**

Measurement criteria:

- Employment breakdown between companies located in metropolitan and non-metropolitan communities (under 15,000 population).

Frequency of measurement:

- Detailed employment schedules are provided to KVCII management by portfolio companies on an annual basis. Aggregate employment data is categorized by community size and reported annually to stockholders, the Governor, the standing and joint legislative committees on economic development, KDOC&H, the State Treasurer, and Kansas, Inc. through an annual report and selected mailings.

Reason for measurement:

- Measure the objective of increasing investment activity in non-metropolitan communities set forth in the RCA.

5. **PAYROLL**

Measurement criteria:

- Aggregate measurement of cumulative payrolls paid by portfolio companies since KVICI involvement.

Frequency of measurement:

- Payroll information is provided to KVICI management by portfolio companies on an annual basis. Aggregate payroll data is consolidated and reported annually to stockholders, the Governor, the standing and joint legislative committees on economic development, KDOC&H, the State Treasurer, and Kansas, Inc. in an annual report and selected mailings.

Reason for measurement:

- Measure the objective of creating wealth and income for Kansans set forth in the RCA.

6. **CUMULATIVE ECONOMIC REINVESTMENT**

Measurement Criteria:

- Aggregate measurement of cumulative capital expenditures made and taxes paid by portfolio companies since KVICI involvement

Frequency of measurement:

- Detailed schedules of capital expenditures and taxes paid are provided to KVICI management by portfolio companies on an annual basis. Aggregate data is consolidated and reported annually to stockholders, the Governor, the standing and joint legislative committees on economic development, the KDOC&H, the State Treasurer, and Kansas, Inc. in an annual report and selected mailings.

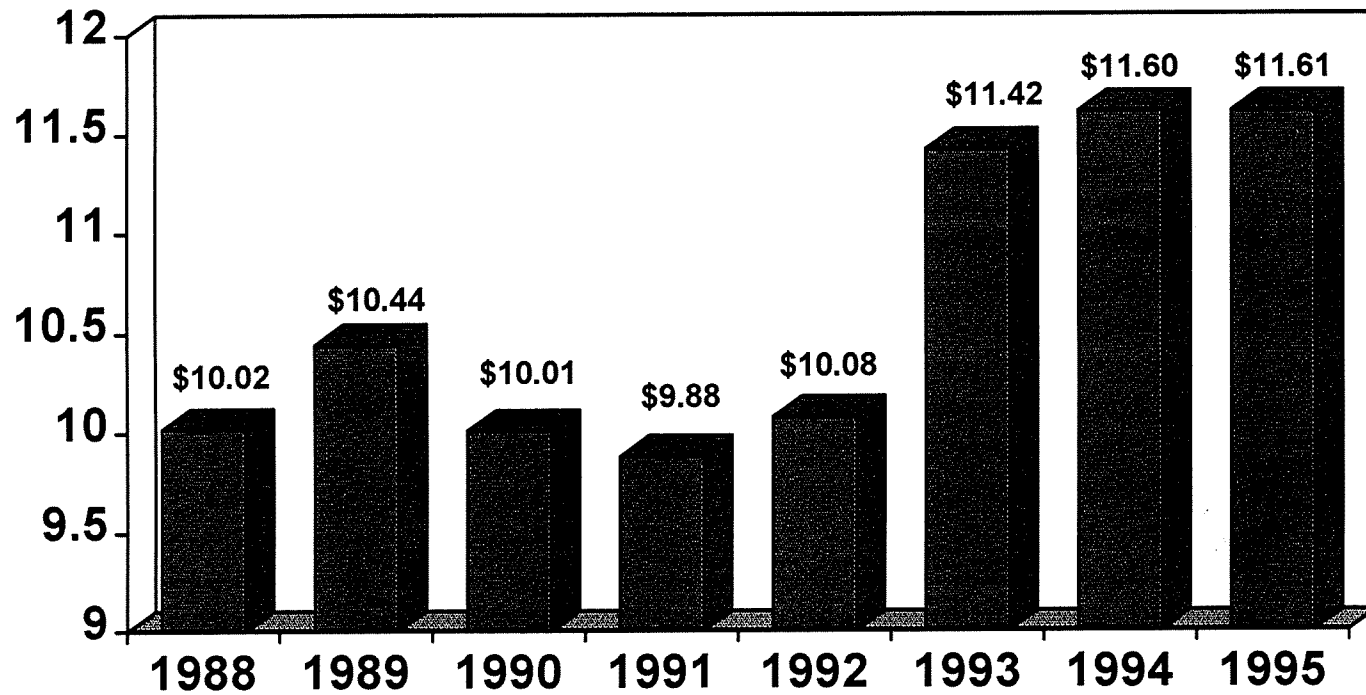
Reason for measurement:

- Measure certain multiplier effects of KVICI portfolio investment activity as set forth in RCA and VCA.



Kansas Venture Capital, Inc.

Fully Diluted Book Value Per Share

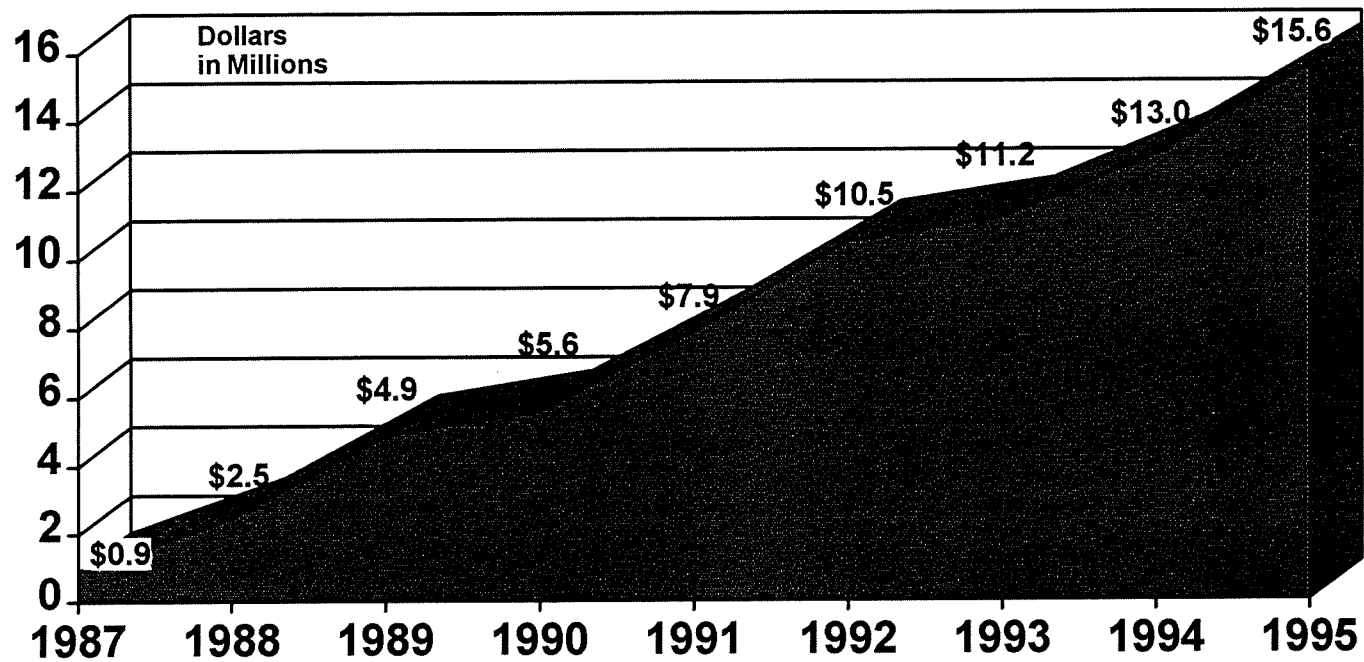


Information based upon December 31 audited financial statements



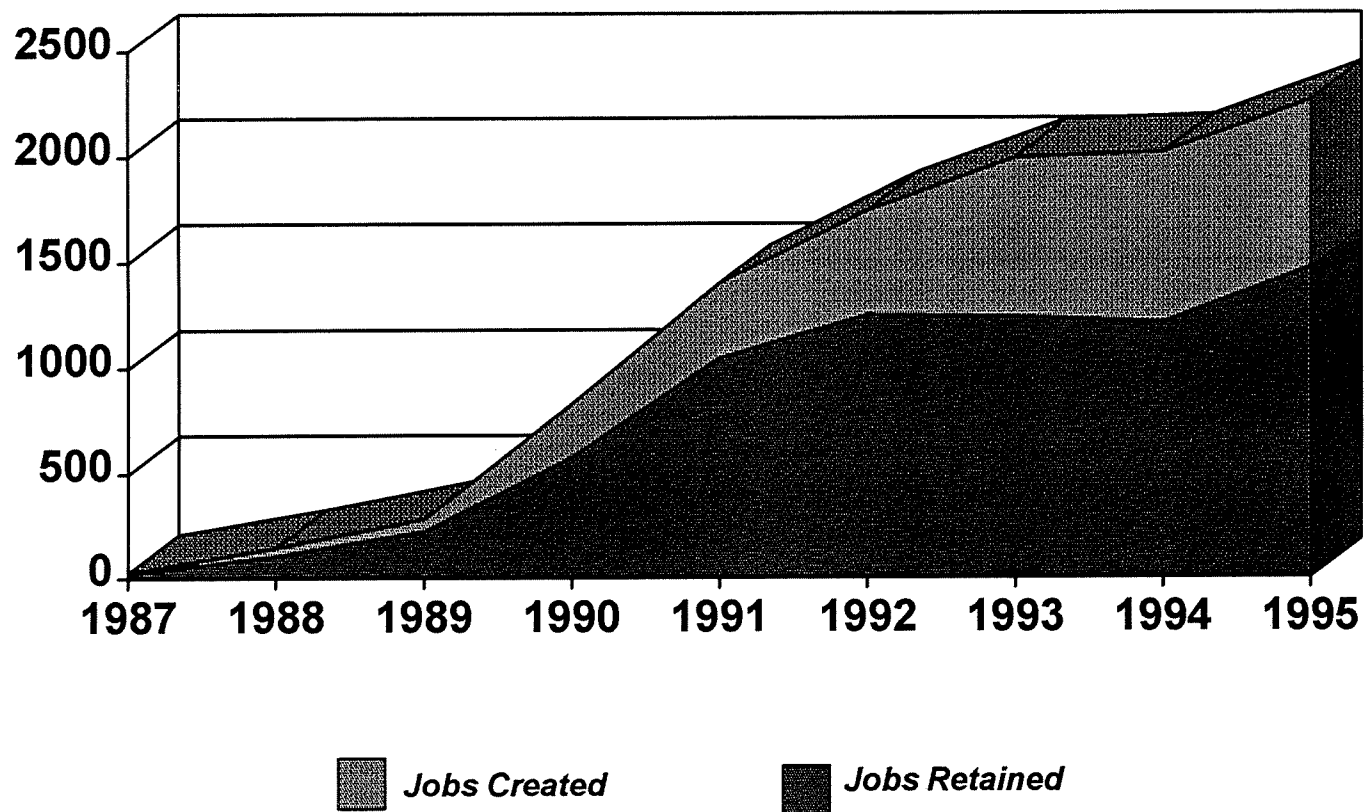
Kansas Venture Capital, Inc.

Cumulative Investment in Kansas-Based Businesses



Information based upon activity through December 31, 1995

Jobs Retained and Created

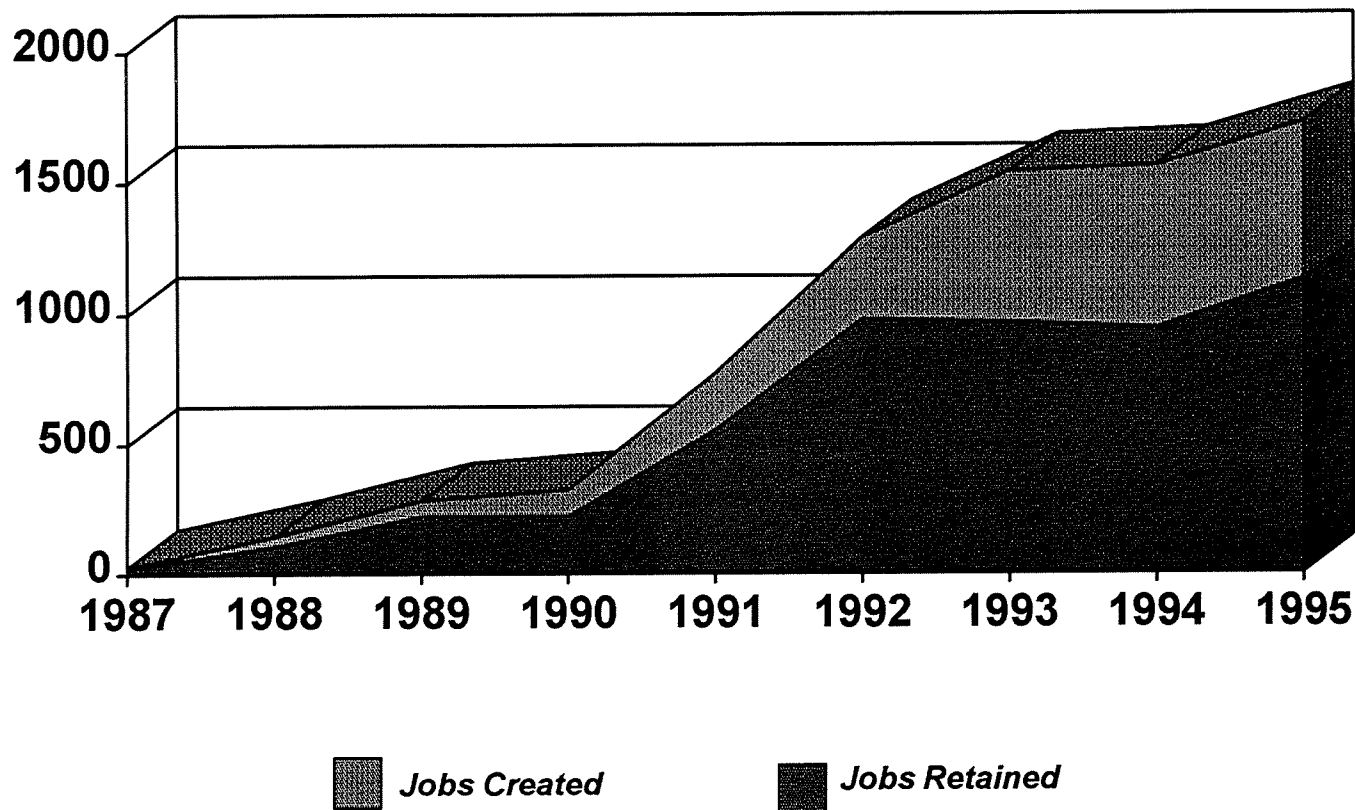


Information for each year as of December 31. Based only upon entire portfolio since 1987



Kansas Venture Capital, Inc.

Jobs Retained and Created (Current Investees Only)

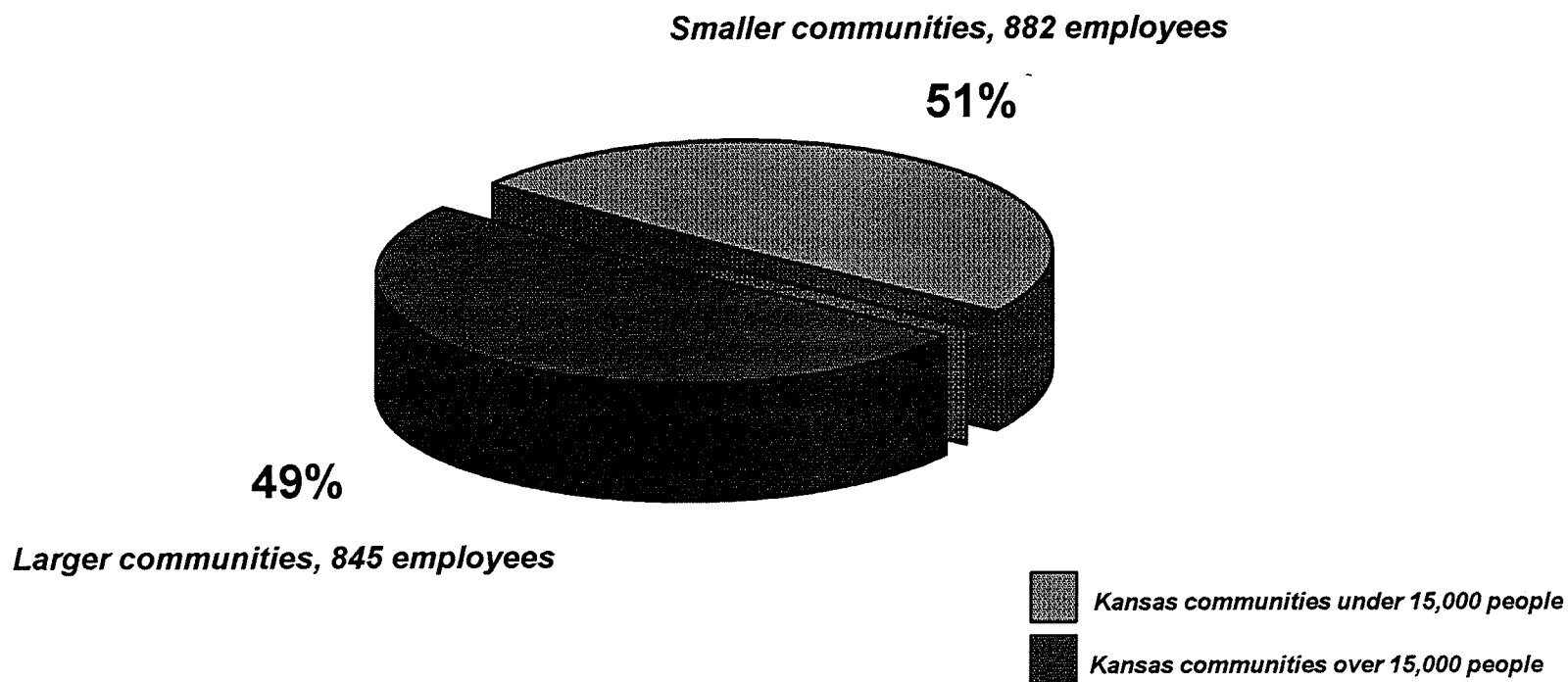


Information for each year as of December 31. Based only upon current portfolio. Employment census of investee companies exited prior to January 1, 1995 are not included.

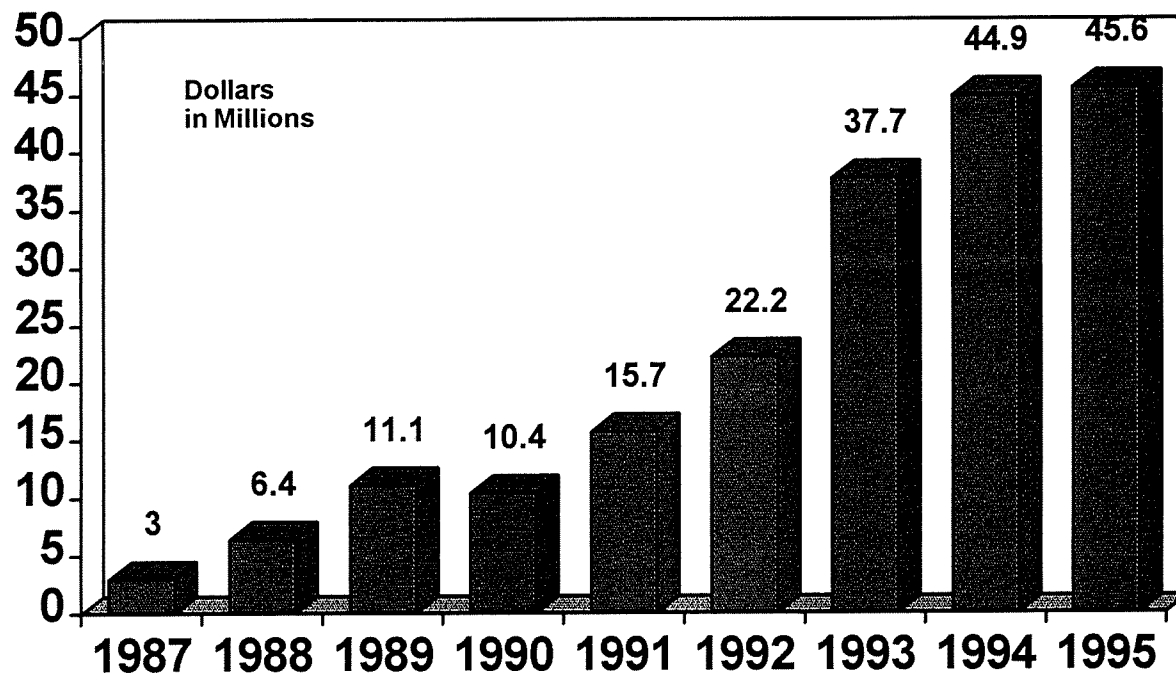


Kansas Venture Capital, Inc.

Portfolio Employment Census (Current Investees Only)

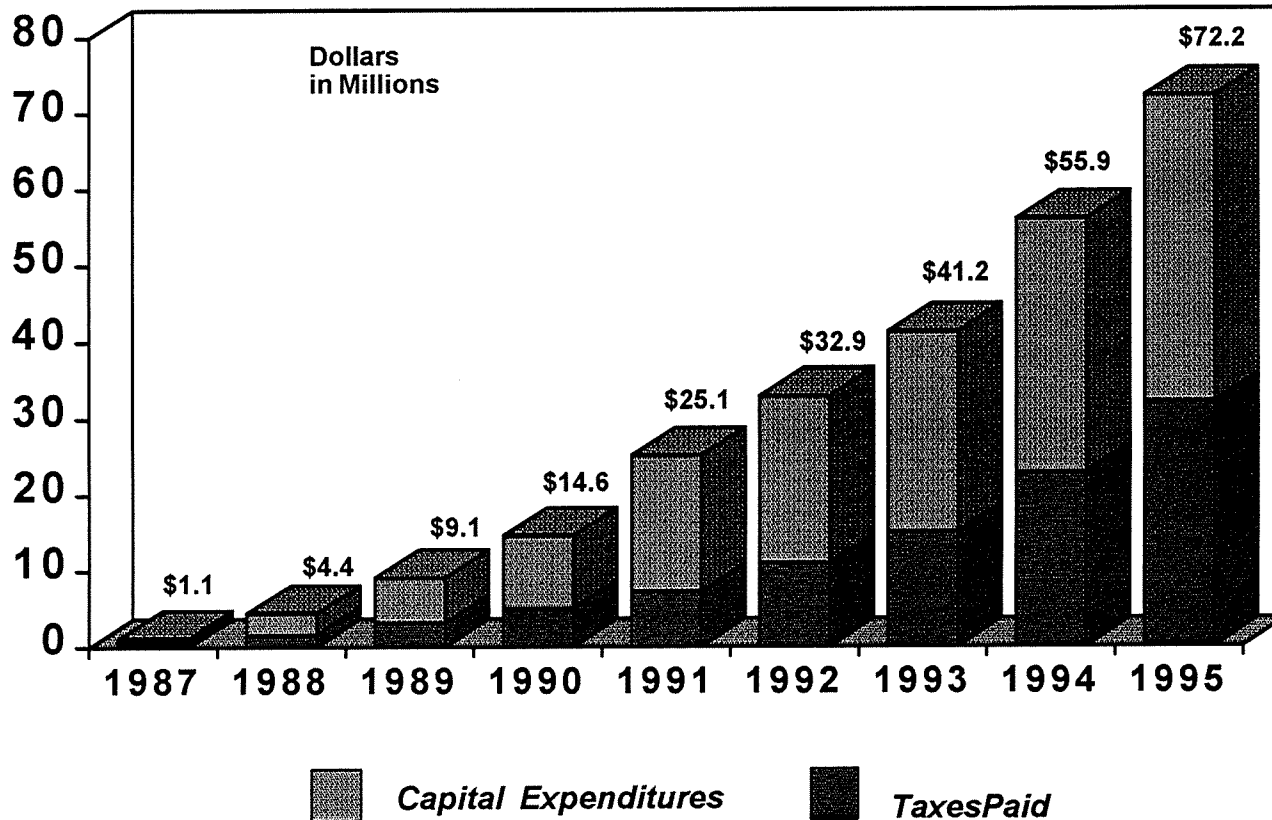


Information based on employment census as of December 31, 1995

Annual Payroll of Portfolio Companies (Current Investees Only)

Information based upon fiscal year payrolls. Based only upon current portfolio. Investee companies exited prior to January 1, 1995 are not included.

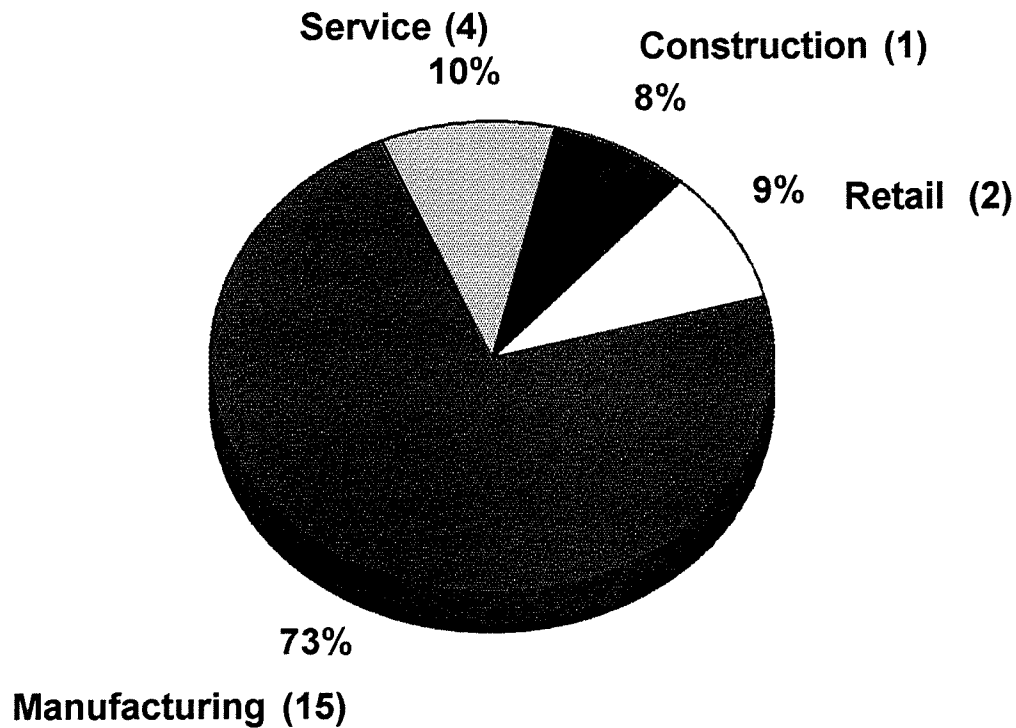
Cumulative Economic Reinvestment of Kansas-Based Portfolio Companies



Information based upon activity through December 31, 1995

Investment By Sector as of December 31, 1995

(per dollars invested)

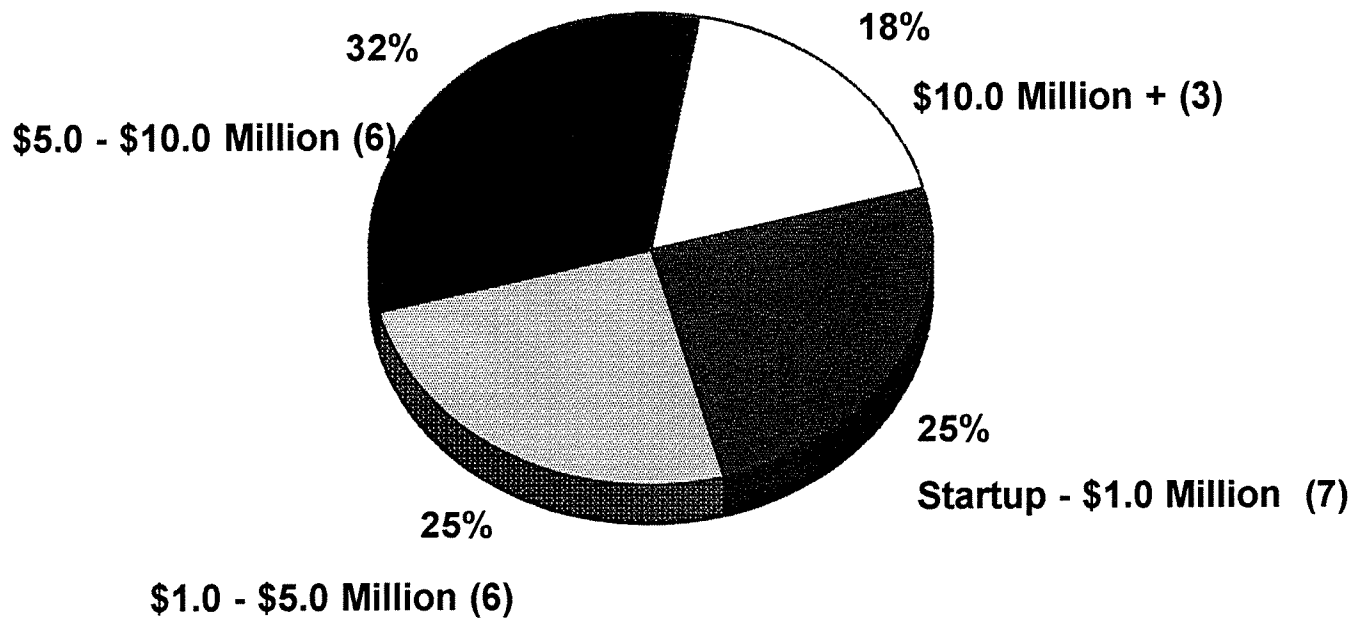




Kansas Venture Capital, Inc.

Investment By Company Size as of December 31, 1995

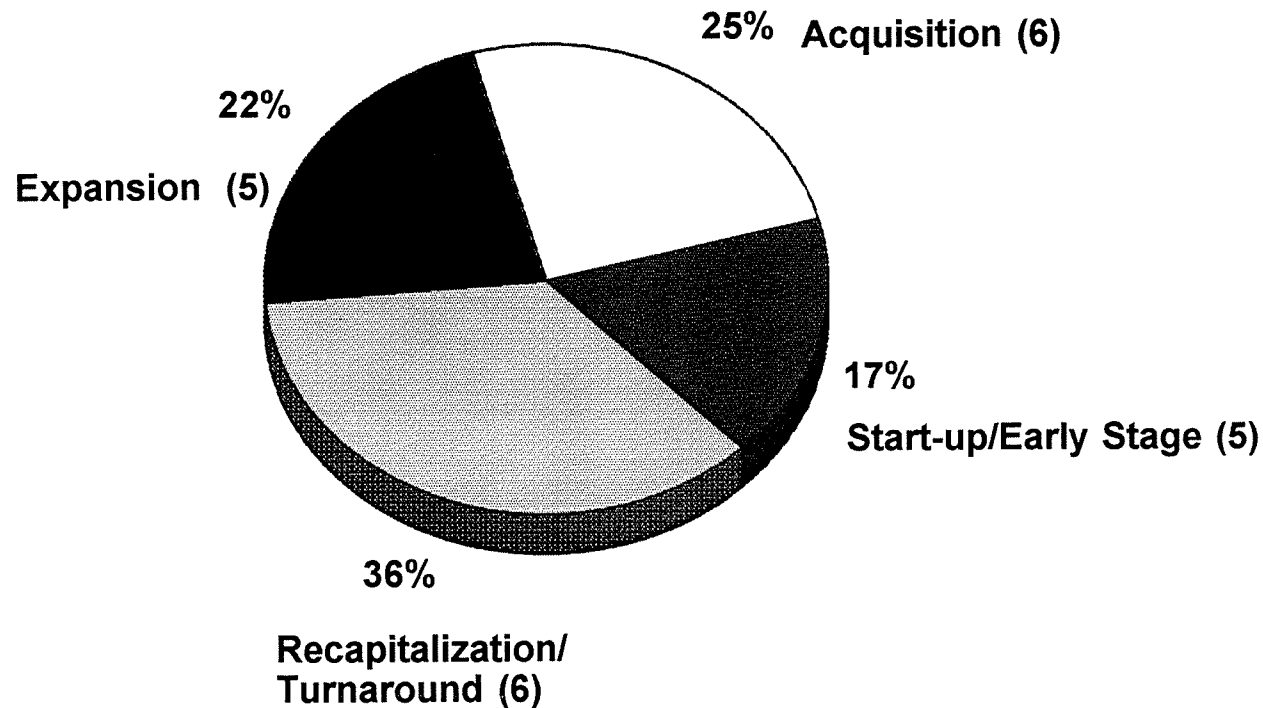
(per dollars invested)



(Based on company revenues prior to initial KVCI Investment)

Investment By Stage as of December 31, 1995

(per dollars invested)



Investment By Industry as of December 31, 1995

(per dollars invested)

