

MINUTES OF THE SENATE COMMERCE COMMITTEE

The meeting was called to order by Chairperson Karin Brownlee at 8:30 A.M. on February 7, 2007 in Room 123-S of the Capitol.

All members were present except:
Susan Wagle- excused

Committee staff present:
Kathie Sparks, Kansas Legislative Research Department
Norm Furse, Revisor of Statutes
Jackie Lunn, Committee Assistant

Conferees appearing before the committee:
Tracy Taylor, K-TEC

Others attending:
See attached list.

SB 83-Employment security law; contribution rates

Chairperson Brownlee recognized Kathie Sparks, Legislative Research to clarify the differences in the timeline she had done regarding how long it would take a state employee to get the first unemployment check and the timeline Wil Leiker, AFL/CIO had given. The employee that Mr. Leiker used in his timeline made too much money to qualify the first week for benefits and he would have a two week waiting period. Both Ms. Sparks and Mr. Leiker were right.

Chairperson Brownlee announced the Committee would be working SB 83 and a discussion followed.

Senator Jordan made a motion to pass the SB 83 out favorably. Senator Barone seconded the motion. Motion carried.

Chairperson Brownlee turned the chair over to Senator Jordan and he introduced Tracy Taylor, President and CEO, Kansas Technology Enterprise Corporation (KTEC) to update the Committee. Mr. Taylor presented written copy of the KTEC annual report; (Attachment 1), *20 Years of Innovation*; (Attachment 2), and a *Presentation to the Senate Commerce Committee*. (Attachment 3) Mr. Taylor stated KTEC is experiencing their twentieth anniversary referring the Committee to *20 Years of Innovation*, which is a historical analysis of KTEC operations with the overriding them of impact.

Mr. Taylor gave background on KTEC and stated KTEC focuses on: Research; investments, entrepreneur development; and business assistance. He then highlighted the following in his presentation:

- Technology Commercialization Value Chain.
- Pipeline, KTEC's Entrepreneurial Fellowship
- Companies that KTEC works with
- Attracting Ventria to the State
- KTEC values
- Technology Commercialization Value Chain
- KTEC Strategies
- Angel Networks
- FY 2006 Results
- KTEC Cumulative Results

Questions and answers followed.

Chairperson Jordan announced that Tuesday, Wednesday and Thursday meetings for next week will start at 8:00 a.m.

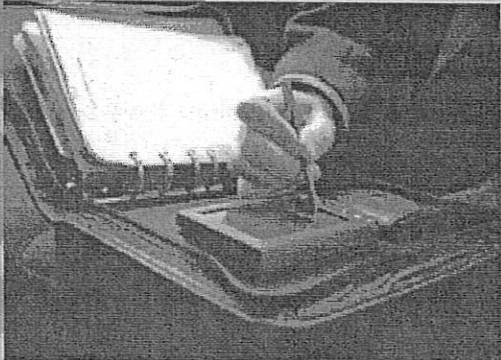
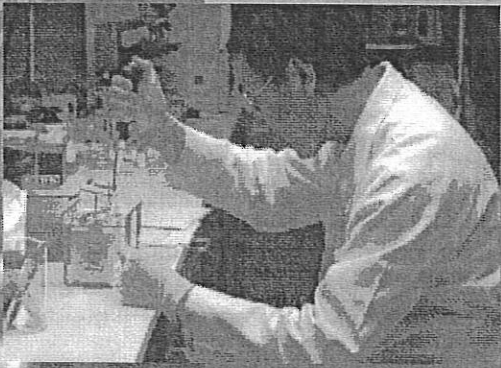
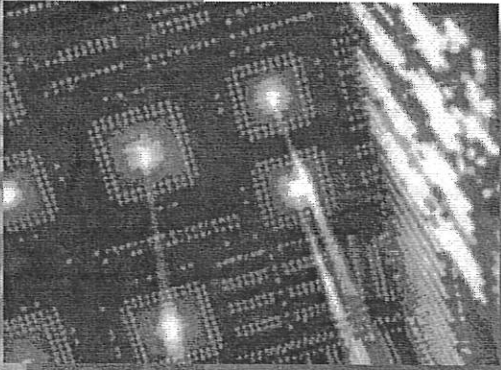
CONTINUATION SHEET

MINUTES OF THE Senate Commerce Committee at 8:30 A.M. on February 7, 2007 in Room 123-S of the Capitol.

Chairperson Jordan adjourned the meeting at 9:25 a.m. with the next scheduled meeting tomorrow, February 8th at 8:30 a.m. in room 123 S.



KANSAS TECHNOLOGY
ENTERPRISE CORPORATION



ANNUAL REPORT 2006

Senate Commerce Committee
February 7, 2007

Attachment 1-1



Results	2
Letter from the Governor	4
Letter from KTEC	5
Board of Directors	6
KTEC Staff	7
Committee Members	8
Network Directors	9
University Programs	10
Business Assistance	12
Investment	14
Year in Review	15

Appendix A: Independent Financial Audit

About KTEC

The Kansas Technology Enterprise Corporation is a state-chartered corporation established in 1987 to stimulate economic development in Kansas by fostering innovation and development of technology. KTEC receives its state funding through the Economic Development Initiatives Fund, which consists of revenue from the Kansas Lottery and Gaming Commission.

KTEC has the expertise and resources to help turn innovative ideas into marketable products. A statewide network supports entrepreneurs, scientists and businesses through each phase of the technology life cycle.

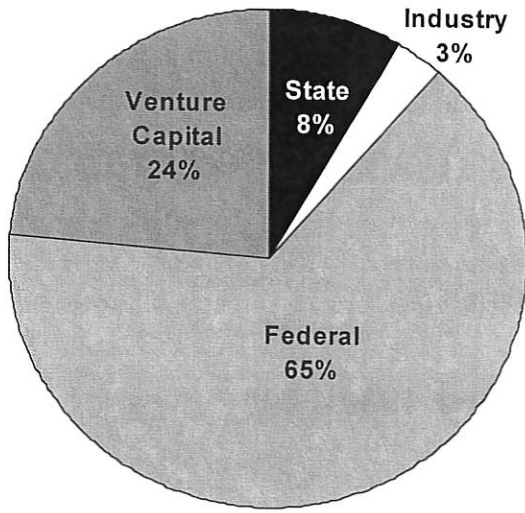
The innovative structure of the KTEC network and the quality and diversity of its programs have positioned Kansas as a model for other states. Kansas is recognized nationally and internationally as a leader in using the commercialization of technology as a foundation for economic development.

KTEC has developed specific programs to accelerate the research, development and commercialization processes of new technologies in Kansas. These programs fall into three basic functional areas: research, business assistance and investment. Through these three areas of focus, KTEC is helping to diversify the Kansas tax base and create jobs for Kansans.



SULTS

FY 2006 Total State Expenditures and Funds Leveraged



FY 2006 Expenditures:

State Funds - \$11.37 Million

Federal Funds - \$88.6 million

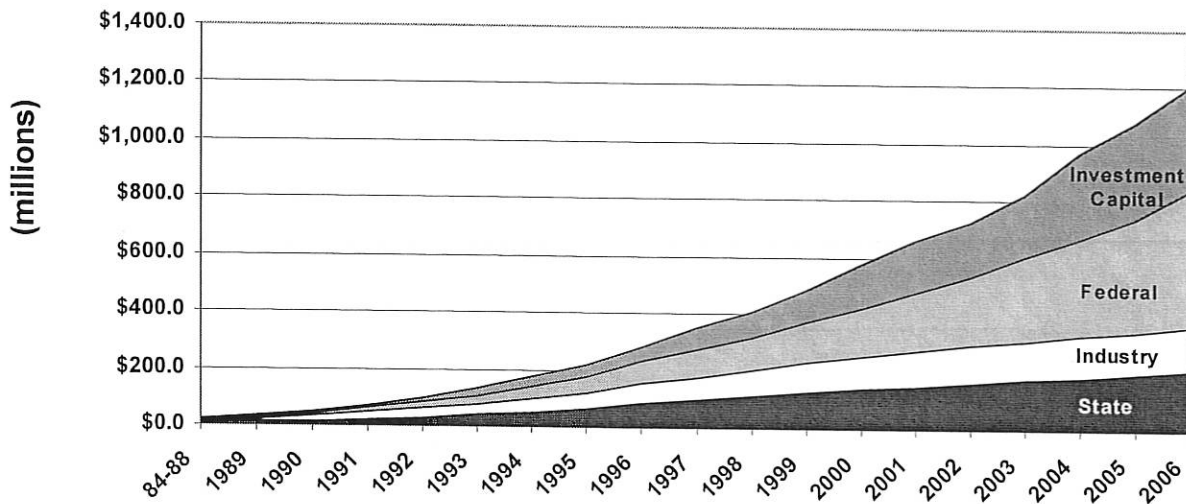
Investment Capital - \$32.4 million

Industry Investment - \$4.3 million

Total Non-State funds: \$125.3 million

Ratio of Non-State to State Funds: \$11:1

Cumulative Investment 1984-2006



Cumulative Investment:

\$207.7 million state invested

\$155.4 million industry invested

\$479.7 million federal invested

\$366.6 million investment capital

Total: \$1,209.4 billion Leverage: \$4.8 : 1

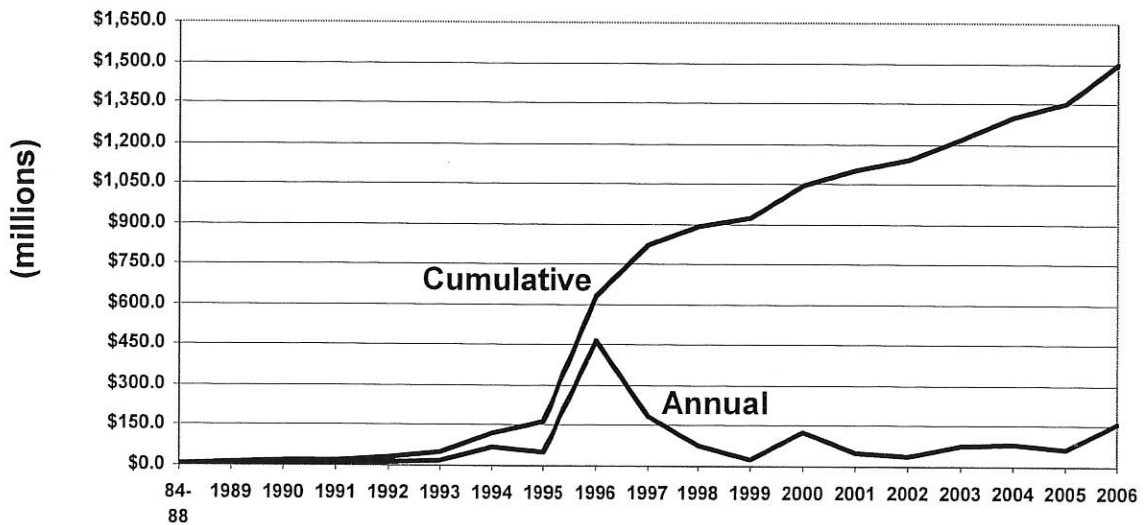
FY 2006 Results:

\$158 million in sales
 557 jobs created or retained
 15 company start-ups
 \$177,000 in royalties received

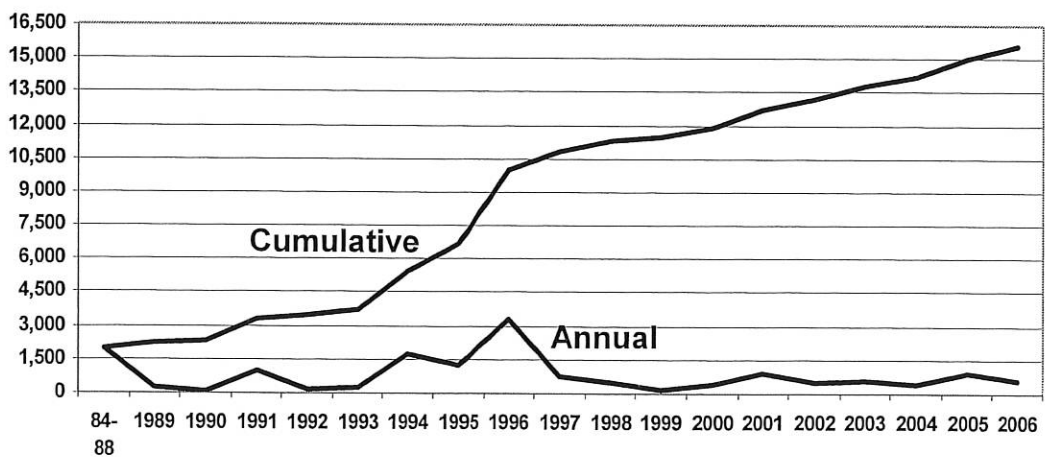
Cumulative Results 1984-2006:

\$1.5 billion in sales
 15,500 jobs created or retained
 416 company start-ups
 \$12.9 million in network investment returns

Increased Sales 1984-2006



Jobs Created or Retained 1984-2006





TER FROM THE GOVERNOR



KANSAS

OFFICE OF THE GOVERNOR

KATHLEEN SEBELIUS, GOVERNOR

Dear Fellow Kansans:

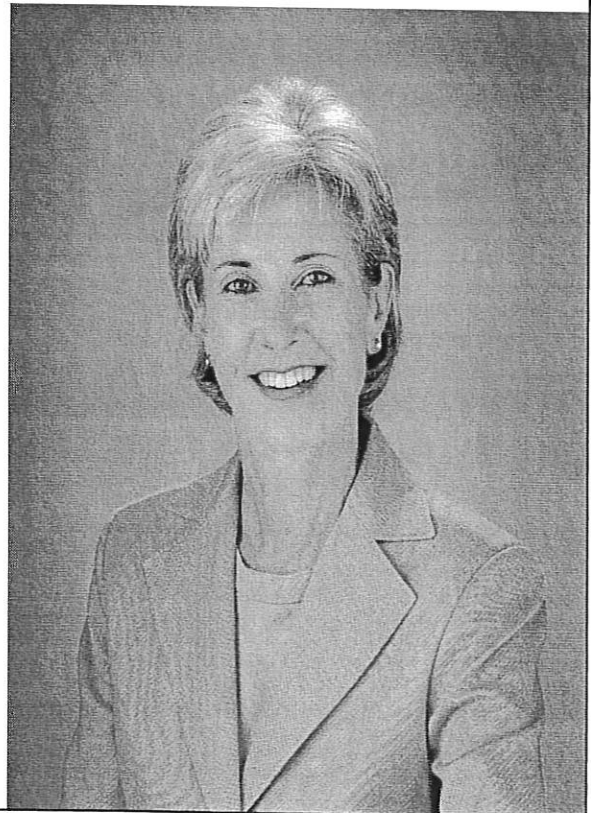
As we reflect on the past year, it is evident that innovation has contributed to the success of Kansas' economy. A healthy innovation economy improves the quality of life for Kansans, through higher paying jobs, improved products and services and retention of our best and brightest.

KTEC has continued to play a leading role in laying the foundation for a vibrant economy, by stimulating commercially relevant research, mentoring high tech entrepreneurs and nurturing new companies.

Through my involvement in cutting edge initiatives at the national and state level, I recognize the need to capitalize on our state's assets to control our economic future. I am confident that KTEC will continue to serve as a key catalyst for mobilizing our technical, human and financial assets for the benefit of all Kansans.

Sincerely,

Governor of the State of Kansas



CAPITOL BUILDING, ROOM 212S, TOPEKA, KS 66612-1590

Voice 785-296-3232 Fax 785-296-7973 <http://www.ks.gov/governor.org>



Governor Sebelius, Kansas Legislators and fellow Kansans:

As a native Kansan, I am continually inspired by the entrepreneurial spirit and commitment to innovation in our state. KTEC continues to play the leading role in stimulating technology based economic development – keeping Kansas on the “cutting edge” in an increasingly competitive global economy.



President & CEO
Tracy Taylor

KTEC is dedicated to supporting the most important element of a successful innovation and economic development program – people. Kansas is blessed with many talented people who possess the intelligence, education and drive to keep Kansas cutting-edge. As evidence of our support for top technology talent, we recently unveiled the KTEC PIPELINE, which is designed to match the Kansas’ top technology entrepreneurs with capital, know-how and a support mentoring network, which can compliment their ambitious and promising futures. The KTEC PIPELINE adds to KTEC’s comprehensive technology program by ensuring the most important component to any successful economy – a cadre of innovators that will lead the Kansas economy for generations to come.

Although the Bioscience Initiative, contained in the Kansas Economic Growth Act, has been a very important piece of KTEC’s work over this past two years, KTEC remains committed to its work in other technology-oriented areas. In 2006, KTEC constantly strived to stimulate innovation in the areas of: information technology, advanced manufacturing competitiveness, aviation, biosciences, energy and advanced materials. We continue to support strategic areas of research and development, provide hands-on nurturing of emerging technology companies, improve the competitive position of small manufacturing companies and make strategic equity investments in early-stage technology companies.

As we look ahead, next year will mark the 20th Anniversary for KTEC and will present a tremendous opportunity to celebrate the progress that has been made enhancing the environment for technology-based entrepreneurship in the state. We look forward to continuing to help make Kansas an innovative state and a better place to live.

Tracy Taylor
President and CEO



BOARD OF DIRECTORS



Lindsay Olsen-Chairman
Mortgage Investment Trust
Prairie Village
Executive, Investment*, Audit**



David Brant-Vice Chairman
Cessna Aircraft Corp.
Wichita
Executive, Audit**



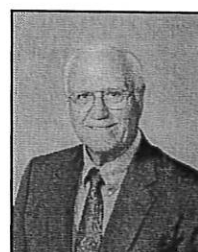
Carmen Alldritt
Kansas Department of
Revenue
Topeka
*Audit**



Doug Brush
Brush Art Corp.
Downs
University Programs, Executive*, Audit**



Dr. Tom Bryant
Pittsburg State Univ.
Pittsburg



Dan Cain
Cain Land & Grain
Topeka
*University Programs**



Rep. Doug Gatewood
Kansas Legislature
Columbus



Ted Haggart
Douglas County Bank
Lawrence
Commercialization, Exec. *, Audit**



Sen. Nick Jordan
Kansas Legislature
Shawnee



Robert Krause
Kansas State Univ.
Manhattan
Commercialization, Exec. *, Audit**



Lt. Gov. John Moore
Kansas Dept.
of Commerce
Topeka



Dr. Gerald Loper
Wichita State Univ.
Wichita



Robert Murdock
Osage Resources L.L.C.
Hutchinson
*Investment**



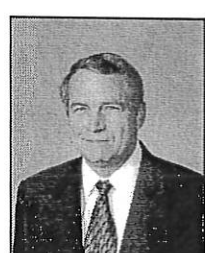
Adrian Polansky
Secretary of Department
of Agriculture
Topeka



Linda Reinhardt
Erie



Tim Shallenburger
American Bank
Baxter Springs



Dr. David Shulenburger
Univ. of Kansas
Lawrence



Sen. Chris Steineger
Kansas Legislature
Kansas City



Rep. Kenny Wilk
Kansas Legislature
Lansing
*Executive**

KTEC STAFF



Kevin Carr
Chief Operations Officer



Joni Cobb
PIPELINE President



Katie Geier
Assistant to the
President



Wendi Lucero
University Programs
Assistant



Kenneth Lynn
Executive
Vice President



Kim Mason
Accountant



Teresa Merrifield
Innovation Assistant



Sheila Meyer
Investment & Portfolio
Assistant



Kelly Pearl
Communications
Coordinator



Tracy Taylor
President & CEO



Michele Weigand
Chief Investment
Officer



Alan Weis
Director of Information
Technology



Wade Wiebe
Investment Analyst

COMMITTEE MEMBERS



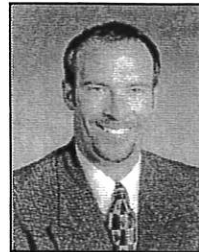
Sam Campbell
Campbell-Becker
Lawrence
Commer.; Univ. Programs**



Patrick Connolly
ICE Corp.
Manhattan
*University Programs**



Gary Cooper
Honeywell
Kansas City
*University Programs**



Kyle Elliott
Spencer Fane Britt & Browne
Kansas City
*Investment**



Kenneth Frahm
Colby
*Investment**



David Frankland
@fferent Security Labs
Leawood
*Investment**



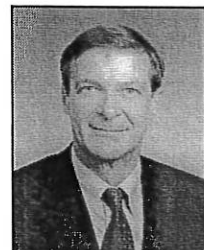
Robert Harbison
Wichita
*Investment**



Tom Lauerman
Leawood
*Investment**



Vern Silvers
Salina
*University Programs**



David Sindelar
Sindelar Associates
Kansas City
*Investment**



Dr. Robert Stutz
Shawnee Mission
*Investment**



Farhad Tadayon
Spirit Aerosystems
Wichita
*University Programs**

* indicates a voting member of the committee

NETWORK DIRECTOR



Dr. Jim Baxendale
Executive Director
Tech. Trans. & Intell. Prop. (KU)
Commercialization



Trish Brasted
President
WTC
Commercialization



Dr. Charles Decedue
Executive Director
HBC



Eric Ferrell
President
ATC
Commercialization



Richard French
President
Quest Center
Commercialization



Dr. Richard Huston
Director
Tech. Trans. & Intell. Prop. (KUMCRI)
Commercialization



Sandy Johnson
President
MAMTC



Tim Johnson
Executive Director
ITTC



Dr. Bradley Kramer
Director
AMI



Matthew McClorey
President
LRTC
Commercialization



Steve Robb
Director
KPRC



Kent Glasscock
President
NISTAC
Commercialization



Richard Sidles
President
WKTC
Commercialization



Dr. John Tomblin
Executive Director
NIAR



Joel Wiggins
President
ECJC
Commercialization



* indicates a voting member of the committee

KTEC Committees:
Executive
Commercialization
University Programs
Investment
Audit

DIVERSITY PROGRAMS

CENTERS OF EXCELLENCE

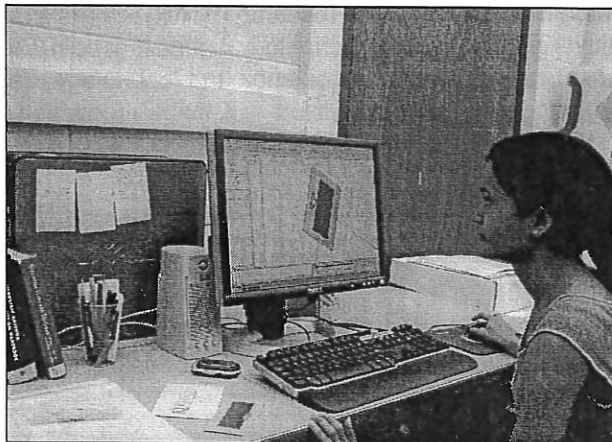
The Centers of Excellence conduct innovative research that can lead to marketable products. The centers also serve the technical research needs of start-up and mature Kansas companies, as well as collaborate with industry advisory boards to identify and solve technical problems common to the industry.

There are five Centers of Excellence located at four universities in Kansas. Each center has its own technology focus. Centers conduct basic and applied research and provide product development, networking programs, training, seminars and technical assistance to help in the development and commercialization of new technologies.

Below are a list of KTEC's Centers of Excellence, including highlights from the past year:

The **Advanced Manufacturing Institute (AMI)** at Kansas State University, which has provided major engineering and design assistance to companies in 41 counties, has continued to expand services, allowing clients to take an idea from concept to marketplace. With these expanded services, AMI augmented its intern program to include undergraduate and graduate students from other disciplines, such as: business, communications and product design. The AMI intern program provides students hands-on training through real-world projects and a connection to potential career opportunities, in addition to providing employers a resource of experienced candidates.

The **Information and Technology Telecommunication Center (ITTC)** developed a new generation Radio Frequency ID tag which works on metal or in water. Creating considerable excitement in industry, the new technology means RFID tags may now be developed to track laptops, tools, machinery, and containers of liquid. The Center is also working with Oak Ridge National Laboratory to develop a nationwide sensor network for assessing chemical, biological, radiological, nuclear and explosive threats. The "SensorNet" will process and disseminate critical information to emergency management decision makers and first responders.



An ITTC graduate student works on the design of the KU-Tag, which is one of the best-performing, least costly, and thinnest radio frequency identification (RFID) tags specifically designed to work on metal or objects containing liquid.

Higuchi Biosciences Center (HBC) has been working with KU scientists to help advance two promising drug candidates, which have the potential to become important drugs in the fight against diseases such as Alzheimer's Disease, stroke, Lou Gehrig's Disease and Multiple Sclerosis. HBC continues to provide support for Critech, the supercritical fluid technology company that over the year saw great expansion, not only in size, but also with the hiring of two new directors and with the \$1 million in equity investments being raised.

The **Kansas Polymer Research Center (KPRC)** partner Cargill, Inc. won the prestigious Innovation Award in the Technology category at the Alliance for the Polyurethanes Industry (API) 2006 Technical Conference in Salt Lake City. Cargill received the award for its successful commercialization of BiOH™, a new polyols process technology representing a significant reduction in fossil fuel energy demand and major reduction of CO2 emissions. The technology was developed in cooperation with KPRC scientists under a joint development agreement.

The **National Institute for Aviation Research (NIAR)** funding increased 40 percent from 2005, allowing for a 2006 operation budget of more than \$35 million. NIAR and Wichita State University were ranked fourth in aeronautical research and development among U.S. Universities, according to the latest National Science Foundation data. The university ranked above MIT and the Air Force Academy, and improved from its previous ranking of seventh. NIAR's Advanced Joining Lab is in the final stages of becoming a member of the NSF Center for Friction Stir Processing.

SMALL BUSINESS INNOVATION RESEARCH

KTEC has developed a program to help small companies compete for federal Small Business Innovation Research (SBIR) awards, a competitive three-phase award system operated by ten federal agencies, which gives small companies the opportunity to propose innovative ideas that meet the specific research and development needs of the agencies.

Kansas small companies that are interested in developing products through the federal SBIR program are eligible for free assistance through the KTEC office and ancillary consulting services.



EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH AND THE STRATEGIC TECHNOLOGY AND RESEARCH FUND

The Experimental Program to Stimulate Competitive Research (EPSCoR) encourages university partnerships with industry and stimulates sustainable science and technology infrastructure improvements in 22 states, including Kansas, that historically have received a disproportionately low per capita average of federal research dollars. In the past, taxpayers in the 25 EPSCoR states essentially had been subsidizing the research efforts of universities in states that received a large share of federal research dollars. EPSCoR seeks to correct this disparity by improving the ability of universities in these states to compete for federal and private sector research and development funding. The program requires a state match of federal funding. KTEC is the authorized source for the matching funds in Kansas.

The Strategic Technology and Research (STAR) Fund is a companion program to EPSCoR and promotes national competitiveness in strategic technology niches that hold the most promise for the Kansas economy. The purpose of the fund is to pair the state's science and technology research strengths with commercialization capacities of Kansas businesses in order to diversify Kansas' innovation economy and sustain national and global competitive advantage. Funding from the STAR Fund is available only to researchers at Kansas Board of Regents' universities.

In FY 2006, KTEC invested \$2.39 million in Kansas EPSCoR and STAR fund projects, with federal agencies providing \$18.56 million in matching funds, a ratio of seven federal dollars for every state dollar.

BUSINESS ASSISTANCE



BUSINESS INCUBATORS



KTEC's business incubators are unique public-private partnerships designed to assist emerging technology companies and transfer new technologies to the marketplace.



Services include business planning, management expertise, access to risk capital and incubator facilities. Each incubator operates a for-profit seed capital fund which provides equity investments in highly qualified technology start-ups.



The incubators are tax-exempt 501(c)3 companies and are financially supported and governed by partnerships consisting of KTEC, the local university, the local community and industry.

Below are a list of KTEC's business incubators, including highlights from the past year:

The **Alliance for Technology Commercialization (ATC)**, at Pittsburg State University, and the Kansas Polymer Research Center entered into a Strategic Commercialization Plan to assist in organizing, collecting and compiling information on over twenty Invention Disclosures for potential commercialization in Kansas. ATC met with over 35 clients from twelve counties to assist in developing strategies for commercializing their new technology. The Southeast Kansas Venture Alliance completed its second year. Milestone Ventures L.L.C made four investments during the year.

The **Enterprise Center of Johnson County (ECJC)**, in partnership with the Lawrence Regional Technology Center, launched the Mid-America Angels Network, a regional network of accredited investors. The KTEC PIPELINE, which is housed at ECJC, chose two of ECJC's companies' founders as KTEC PIPELINE Innovators. Joel Wiggins, President and CEO of ECJC, served as Vice Chairman of National Business Incubation Association Board of Directors for a second year and was selected by the Board to serve as Chairman for the upcoming year.

The **KU Medical Center Research Institute (KUMCRI)** successfully encouraged researchers to increase the flow of invention disclosures, with a total of 22 inventions submitted for evaluation, up about 50% from the previous year. Three inventions are undergoing serious commercial evaluation in the areas of magnetic resonance imaging technology, prostate cancer treatment, and HIV inhibitors. The Institute is also developing an advanced tool for classifying and evaluating inventions for commercial potential.

The **Lawrence Regional Technology Center (LRTC)** clients attracted approximately \$9,000,000 in funding for 2006, in addition to the \$19,000,000 venture capital commitment made to Proteon Therapeutics. LRTC clients have attracted \$60 million in venture capital in the last four years. LRTC also partnered with the Enterprise Center of Johnson County to form and manage the Mid-America Angels Network, a regional angel network of accredited investors. LRTC's clients now employ 220 people.

The **National Institute for Strategic Technology Acquisition and Commercialization (NISTAC)** tech transfer licensing exceeded \$1.5M and total licensing income hit record levels for 2006. NutriJoy, a 2002 NISTAC start-up company, signed a multi-year product development or "discovery" contract with the world's largest beverage company. Work is also nearing completion on an office/wet-lab incubator/innovation center on the northeast corner of the K-State campus.

The **Quest Business Center for Entrepreneurs (Hutchinson)** and the Reno Entrepreneurial Development Institute (REDI) were granted approval by the Kansas State Board of Education to implement the REDI on-line curriculum, which is designed for students wanting to pursue entrepreneurship as a course of study. The on-line curriculum will be vocationally funded by the state; therefore there is no cost to the individual school districts. The Quest Center also began focusing efforts on the rural communities as part of the Blue Print for Growth initiative in Reno County. The center is meeting in setting up an outreach office at least once a month in these communities, to support entrepreneurs and small business owners.

BUSINESS ASSISTANCE

The **Western Kansas Technology Center** client **KMW Loaders, Inc.**, of Sterling, used two major technical assistance projects from MAMTC to improve production and assembly efficiency. The company has now begun implementation of a Quality Management System which will continue to improve the company's competitive position into the future. KMW now employs over 150 people in Sterling and Great Bend.

The **Wichita Technology Corporation** continues to provide in-depth business assistance to its incubator companies, which now employ over 250 people. WTC also hosted the Second Annual Great Plains Capital Conference at the Wichita Hyatt. Ten companies seeking capital presented their business opportunities to over 100 conference participants and investors. Five of the ten presenting companies are affiliated with the KTEC Network. The Midwest Venture Alliance (MVA) and its affiliate, the Southeast Kansas Venture Alliance (SEKVA), a local angel investor organization, invested in three technology start-up companies in Kansas this last year.



HiPer Technology, a KTEC client company, at the Great Plains Capital Conference.

ASSISTANCE TO SMALL MANUFACTURERS

Mid-America Manufacturing Technology Center

The Mid-America Manufacturing Technology Center (MAMTC) is a not-for-profit organization that helps small and medium-sized manufacturers increase sales, productivity and quality while reducing costs. MAMTC accomplishes this by working with manufacturers in modernizing their operations, utilizing new technologies, and improving management, marketing and business practices.

MAMTC is affiliated with the National Institute of Standards and Technology (NIST) Manufacturing Extension Partnership and is a subsidiary of KTEC.

MAMTC's regional offices include:

- **Garden City Community College, Garden City**
- **Western Kansas Technology Corporation, Great Bend**
- **Fort Hays State University, Hays**
- **Manufacturing Learning Center, Kansas State University, Manhattan**
- **Overland Park Regional Office, Overland Park**
- **Business Technology Institute, Pittsburg State University, Pittsburg**
- **National Institute for Aviation Research, Wichita State University, Wichita**

ESTMENT



Technology Commercialization Seed Fund

The Technology Commercialization Seed Fund (TCSF) supports investments in Kansas companies engaged in commercializing technologies creating high-paying jobs and a return on investment for Kansas. The Applied Matching Fund (ARMF) supports investment in innovative technologies creating high-paying jobs and a return on investment for Kansas.

To be eligible for an investment in either fund, a company should be a C-corp or a limited liability corporation and must match 150 % of the amount invested by KTEC.

KTEC will seek a return on investment through either convertible debentures, equity or in some cases, royalty investments.

Following is a list of ARMF and TCSF investments made in FY2006.

	<u>KTEC\$</u>	<u>COMPANY\$</u>
Heartland Technologies Inc. , Wichita – Air purification system	\$150,000	\$1,381,055
Innovia Medical, L.L.C. , Lenexa – Medical device to detect middle ear infections	\$150,000	\$835,000
Kozoru Inc. , Overland Park – Mobile answer engine technology	\$166,666	\$850,000
PeakVision Sports L.L.C. , Overland Park – Sunglasses to enhance specific sports performance	\$150,000	\$500,000
Proteon Therapeutics L.L.C. , Kansas City – Permanent dilation of arteries & vein with porcine pancreatic elastase	\$50,000	\$16,000,000
SoftVu, L.L.C. , Leawood – Online marketing campaign tracking and rich media tools	\$35,000	\$35,000
Urigen, Inc. , Lenexa – Clinical stage product targeting symptoms of overactive bladder	\$125,000	\$875,000
Ventria Bioscience Inc. , Junction City – Affordable plant-made pharmaceutical company, creating affordable medicine enabled by ExpressTec Technology	\$500,000	\$12,200,000
Verenta Pharmaceuticals, L.L.C. , Lenexa – New formations of currently marketed prescription products	\$300,000	\$600,000
FY 2006 TOTALS:	KTEC - \$1,626,666	COMPANIES - \$33,276,055



Below are a few of the significant areas of achievement in 2006 for all areas of KTEC endeavors.

KTEC AWARDS \$2.5 MILLION TO STIMULATE COMPETITIVE RESEARCH LINKING RESEARCHERS AT KU, KSU, FHSU

KTEC, the state's designated administrator for the federal Experimental Program to Stimulate Competitive Research (EPSCoR) programs, was able to assist in a \$6.75 million award from the National Science Foundation (NSF) to this partnership of Regents universities. The grant will enable researchers to address forecasting the ecological consequences of environmental changes.

In addition to the federal funds, KTEC will provide \$2.5 million over a three-year period, providing a total funding infusion of \$9.25 million.

Dr. Leonard Krishtalka, director of the KU Natural History Museum and Biodiversity Research Center, will lead the research and Dr. Walter Dodds, Professor of Biology at Kansas State University, will be the co-leader. The purpose of the initiative is to link collections of information on habitats of species and develop powerful software models so that scientists can develop predictive models of how species will be affected by various environmental, climatic or cultural changes.

ANGEL TAX CREDIT

The second term of the Kansas Angel Investor Tax Credit Program officially commenced January 1, 2006. The tax credit program, developed as part of the 2004 Kansas Economic Growth Act, allows a Kansas Angel-accredited investor a 50% tax credit on cash investments of up to \$50,000 in a qualified Kansas business. As of fiscal year-end, 15 companies had utilized a total of \$1,700,623 in credits.

The program was so well received in its inaugural year that the \$2 million dollar tax credits were issued within 41 days of the program start date. As a result of this demand, the legislation was changed to empower the state, through KTEC, to qualify businesses that have the potential for providing the greatest economic impact to the state. Additionally, KTEC was given the ability to reserve partial credits.

The goal of the Kansas Angel Investor Tax Credit Program is to provide investors with tax credits against Kansas Income Tax liability, thereby fostering investments in seed and early-stage capital financing for emerging Kansas businesses. The program cultivates the development, implementation and commercialization of innovative technologies, products and services in Kansas. The Kansas Angel Tax Credit receives a \$2,000,000 Annual Allocation and a \$20,000,000 Cumulative Allocation cap.

KTEC PIPELINE PROGRAM UNVEILED

In furtherance of KTEC's mission to encourage technology-based economic growth in Kansas, KTEC unveiled the KTEC PIPELINE program. The KTEC PIPELINE identifies talented and entrepreneurial Kansans, matches them with best-in-class training, resources and mentors and encourages the PIPELINE "Innovators" to pursue a career as technology entrepreneurs in Kansas.



KTEC PIPELINE President Joni Cobb, introduces PIPELINE Innovator Joey Blue, Wichita.

Kansas is the only state today that is systematically identifying their top technology talent and connecting them to become future leaders. The KTEC PIPELINE adds to KTEC's comprehensive technology program by ensuring the most important component to any successful economy - cadre of innovators that will lead the Kansas economy for generations to come.

R IN REVIEW



The KTEC PIPELINE is guided by an Advisory Board, a council of top technology entrepreneurs in Kansas, to assist in developing and promoting the program, determining criteria and mentoring participants. PIPELINE Innovators will receive additional guidance from mentors in the industry from Kansas and across the nation.

The application process for the KTEC PIPELINE drew candidates from across the state that competed for the opportunity to participate in this inaugural year. The charter class of Innovators represents a cross-section of information technology and the biosciences. The 10 Innovators are as follows: Clint Batman, Lawrence; Joey Blue, Wichita; Tim Donnelly, Leawood; Dr. Debra Ellies, Kansas City; Dr. Lisa Friis, Lawrence; Jay Humbard, Pittsburg; Dr. Olga Koper, Manhattan; George Laurence, Lawrence; Dr. William Rosenberg, Overland Park; and Toby Rush, Lenexa.

The PIPELINE Innovators will spend one year in the technology entrepreneurship program. During this year, the charter class will receive cutting edge education, skill building and networking, as well as access to accomplished mentors. Additionally, the year will include self-assessments, individualized growth plans, field trips and bonding processes. The KTEC PIPELINE will also provide the group access to venture capitalists with the capabilities of financing early-stage technology companies.



Governor Kathleen Sebelius cuts the Kansas Pavilion ribbon - kicking off the BIO 2006 International Annual Convention in Chicago.

KANSASBIO NAMES PRESIDENT, GROWS ORGANIZATION

As a founding member and continued supporter of KansasBio, KTEC was instrumental in selecting President Angela Kreps from a nation-wide candidate pool of several hundred prospects and nominees.

Kreps grew up in Hugoton, Kansas, and graduated from Kansas State University with a Bachelor's degree in Journalism and Mass Communications. Thereafter, she commenced a 16-year career as a sales and marketing professional with such organizations as First Bank Card Center (*INTRUST Bank*), in Wichita, and *Data Center, Inc.*, (DCI), in Hutchinson. Since 1996, Kreps has registered a progressively expanding tenure with Automatic Data Processing, Inc. (*ADP*) in Lenexa. Most recently, Kreps served as a nationally recognized Major Accounts District Manager in the Kansas City area.

Kreps brings a vast array of leadership skills and abilities to the post, as well as a long history of achievements emanating from success in sales and marketing around the state.

Under Kreps' leadership KansasBio has published results of the strategically important Kansas Bioscience and Innovation Roadmap, created videos to highlight the Kansas Economic Growth Act (KEGA) and the growing industry, published regular newsletters regarding industry successes, and published the inaugural edition of the Kansas Bioscience Magazine, which featured, KEGA, the state of Kansas and industry partners in the biosciences.

KansasBio also pulled together a presence for Kansas in Chicago at the BIO International Annual Convention, the world's largest biotechnology conference, putting Kansas on the map, with more than 130 stakeholders from Kansas attending. The Kansas delegation included Governor Sebelius, key legislators, state and business leaders, as well as the Kansas Bioscience Authority. KTEC served as a gold sponsor and was excited to have the opportunity to be part of this statewide effort to help grow Kansas' emerging and vibrant biosciences industry.

The organization also continued to work with numerous partners to grow the industry, specifically through business leaders from Bayer, Cargill, Hill's Pet Nutrition, the Kansas Bioscience Authority, the Kansas Departments of Agriculture and Commerce, and KTEC, to attract new companies and expand research collaborations among companies already in Kansas.

TALENT FLOW

KTEC professionals possess a wealth of expertise not only in direct assistance to entrepreneurs and to growth companies, but in the ability to advise communities on developing strategies to effect technology-based economic development. In addition to the daily work of specialists in the network of innovation centers and Centers of Excellence, KTEC's core management team serves in an advisory capacity on numerous local and industry boards, committees and task forces charged with enhancing the climate for technology entrepreneurship. Such initiatives are often designed to catalyze the public-private-academic sectors, improve university-business interaction, evaluate specific business opportunities, and provide linkages to specialized private sector resources.

The team assists communities in business attraction, accessing venture capital and scientific/engineering resources, as well as evaluating prospective business opportunities. The team also provides a wealth of assistance to entrepreneurs, including those who may not necessarily need KTEC's financing and technical programs, in areas such as business planning, strategic market development, and exposure to experienced company leaders.

While the advisory role played by the management team does not fit within any of the official programs per se, it is an important function of the corporation in fulfilling its charge of enhancing the environment for technology-based economic development.

Kevin Carr was promoted to Chief Operations Officer. Carr has served in a variety of positions at KTEC over his 18-year tenure, including establishment and development of the corporation's investment portfolio and oversight of a network of technology incubators. Most recently, he served as KTEC's Vice President of University Programs, overseeing KTEC's \$5.25 million investment in Centers of Excellence and strategic research. Carr grew up in Pittsburg, Kan. and holds a bachelor of science degree in Business Administration from Pittsburg State University and a master's degree in economic geography from the University of Kansas.

Joni Cobb joined KTEC as president of the KTEC PIPELINE, the newly formed technology entrepreneurial fellowship program. Cobb spent the past six years building her own Kansas company, Cobb Communications L.L.C, which provides comprehensive business planning and strategic communications services to organizations such as KTEC, the Kansas Bioscience Organization, Truman Presidential Museum & Library, Union Station Kansas City, Eisenhower Presidential Library, Kansas Healthcare Access Coalition and the Statehouse Restoration Project. Cobb received her bachelor's degree in economics and political science from the University of Missouri-Columbia, and earned her law degree from Washington University School of Law in St. Louis.

Trish Costello has filled the role as an Entrepreneur in Residence and has been part of the KTEC team that conceptualized the initial format for the KTEC PIPELINE program. Costello most recently served as founder and CEO of the Kauffman Fellows Program at the Center For Venture Education in Kansas City. Costello comes to this post with extensive and relevant national and global experience. Graduates of the Kauffman Fellows Program invested nearly \$3.6 billion in 417 companies, resulting in companies with nearly \$11 billion in revenues and 43,000 jobs created in eight years. Prior to her role with the Kauffman Fellows Program, Costello spent over eight years with the Kauffman Foundation, directing the Center's capital formation programs while educating and networking high potential entrepreneurs. Costello is a graduate of Pittsburg State University and holds an MBA from Rockhurst University.

Ken Lynn joined KTEC as its *Executive Vice President of Strategic Planning and Policy*. Lynn comes to KTEC following an engagement with the Kauffman Foundation, serving as president of the Kauffman Innovation Network, Inc., a non-profit corporation established to promote the advancement of science and technology-based innovation generated by university researchers. Lynn grew up in Belleville, Kansas. He practiced law for a year in Dodge City, before moving to Overland Park to accept a position with United Telecom Computer



R IN REVIEW

Group. He subsequently joined Marion Laboratories as Corporate Counsel, where he spent eight years working in support of business development and licensing. Lynn holds a BA from Washburn University, a JD from the Kansas University School of Law, and an MBA from Rockhurst University.

Michele Weigand has filled the role as Chief Investment Officer. Weigand, who joins KTEC after serving as Global New Product Introduction Leader at GE, is responsible for managing KTEC's investment portfolio, creating deal flow through regional and national networking, negotiating deal terms and assisting invested companies with their growth and development. Weigand brings 20 years of finance, business development and marketing experience to KTEC. During her years at GE, she served in key financial roles, such as leading the investment of \$10 million in Lendingtree.com. Weigand received her undergraduate degree in accounting from the University of Kansas and her MBA at George Mason University. Weigand is also a certified public accountant.

KTEC SPONSORS SECOND ANNUAL GREAT PLAINS CAPITAL CONFERENCE

KTEC sponsored the second annual Great Plains Capital Conference, Sept. 20, at the Wichita Hyatt Regency. The event provided a forum for entrepreneurs seeking capital to network and present their business cases to local and regional institutional investors.



A team from Hutchinson High School's REDI was awarded 1st place in the KTEC High School Business Plan Competition.

The conference luncheon featured keynote speaker Marianne Hudson, Director of Entrepreneurship at the Ewing Marion Kauffman Foundation. Following the luncheon, 10 entrepreneurs presented their respective business plans to conference attendees. Each presentation included a brief description of their company's business case, financing needs and future potential.

KANSAS HIGH SCHOOL BUSINESS PLAN COMPETITION

The annual KTEC High School Business Plan Competition was held on April 27, 2006. Five teams from throughout the state competed by developing business plans for companies in technology, science or engineering fields. The purpose of the statewide competition is to increase Kansas' high school students' awareness of entrepreneurship and

the process of starting a business. In competition, groups of three-to-five students present a business plan that they have developed. Top prizes of \$1,000, were split among the winning individuals and their school to help continue its entrepreneurial development and business program.

Hutchinson High School's Reno Entrepreneurial Development Institute (REDI) had the winning team, Animal Instincts Pet Photography. Second place was awarded to DigiVid Productions from Clifton-Clyde High School. Canes by Laroy from Hutchinson High School was awarded third place.

ERNST & YOUNG NATIONAL ENTREPRENEUR OF THE YEAR AWARDS CEREMONY

KTEC participated as a sponsor and presenter at the Ernst & Young Entrepreneur Of The Year reception and awards gala June 22 at the Hyatt Regency Crown Center in Kansas City, Mo. The annual event celebrated the success of business communities and the spirited innovators who continue to move America's economy forward. Leading entrepreneurs from Iowa, Kansas, Missouri and Nebraska were honored for their vision, leadership and achievement.

Two former KTEC funded companies, AeroComm Inc., Lenexa, and Medi-Flex Inc., Leawood, were recognized at the Ernst & Young National Entrepreneur of the Year gala awards event in Palm Springs, CA., on November 19, 2005. Both businesses were Ernst & Young regional winners in the central midwest region. Since 1990, AeroComm has been a global leader in providing short-range data communications to original equipment manufacturers. Founded in 1985, Medi-Flex has developed and manufactured surgical preparation products,

...ing healthcare providers throughout the world. Both highly successful companies in Kansas mentioned the importance of KTEC's funding in growing their businesses.

SANDY JOHNSON TAKES HELM AS NEW CEO OF MAMTC

The Mid-America Manufacturing Technology Center (MAMTC) announced the appointment of Sandy Johnson as CEO. Ms. Johnson moved to this position after serving as the organization's interim CEO for six months. Johnson has worked for MAMTC for nearly 10 years. She worked directly with manufacturers as a field engineer, developed and directed MAMTC's marketing strategy as Director of Marketing and served as Director of State Operations. Johnson earned bachelor degrees in marketing and chemical engineering from the University of Wyoming. She also received a master's degree in eBusiness from the University of Wyoming.



A portion of Pittsburg State University's display at the 2005 Kansas State Fair.

TRACY TAYLOR PRESENTS AT NATIONAL EPSCOR CONFERENCE

Rio Grande, Puerto Rico was the site of the 2005 National EPSCOR Conference, September 25-28. The theme of the conference was, "Trajectory Toward Sustainable Scientific-Based Success in EPSCOR Jurisdictions."

Tracy Taylor, President and CEO of KTEC, presented at the conference, focusing on KTEC's role in commercialization, business assistance incubators, direct equity investments and floating talent through Kansas with KTEC's Entrepreneur in Residence program.

The Commonwealth of Puerto Rico and the State of Delaware were both very interested in KTEC's role with the Bioscience Initiative and the KTEC model. Kansas was well-represented at the conference, including KTEC board members Rep. Kenny Wilk and Sen. Nick Jordan.

KANSAS STATE FAIR

KTEC worked in conjunction with Pittsburg State University at the Kansas State Fair, September 9-18, 2005 in Hutchinson. KTEC had a large display that offered great visibility. With the fair, being 9 days long, KTEC was able to interact with many young people who are excited about the future of technology in Kansas.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)

**CONSOLIDATED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION**

Years Ended June 30, 2006 and 2005

VARNEY & ASSOCIATES, CPAs, LLC
Manhattan, Kansas



November 29, 2006

The Board of Directors
Kansas Technology Enterprise Corporation

Independent Auditor's Report

We have audited the accompanying consolidated balance sheets of the Kansas Technology Enterprise Corporation (KTEC), a component unit of the State of Kansas, as of June 30, 2006, and the related consolidated statements of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of KTEC's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Mid-America Manufacturing Technology Center (MAMTC), a wholly owned subsidiary, which statements reflect total assets of \$3,324,553 and \$3,330,304 as of March 31, 2006 and 2005, respectively, and total revenue of \$4,274,251 and \$4,794,009 for the years then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MAMTC, is based on the report of the other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 29, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Notes 2 and 4, the consolidated financial statements include investments in limited partnerships and economic development limited liability corporations (LLCs). The values of the underlying investments held by these limited partnerships and economic development LLCs have been estimated by the general partners of the limited partnerships and management of the economic development LLCs in the absence of readily ascertainable market values. We have reviewed the procedures used by the general partners of the limited partnerships and management of the economic development LLCs in arriving at the estimates of market value. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and these differences may be material. Accordingly, we were unable to satisfy ourselves by using other auditing procedures that the carrying value of the related investments did not exceed actual market value.

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8
Certified Public Accountants' Report

November 29, 2006
The Board of Directors
Kansas Technology Enterprise Corporation
Page two

In our opinion, based on our audit and the report of other auditors, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to determine market values of the investments in limited partnerships and economic development LLC, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KTEC as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006 on our consideration of KTEC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (MD&A) on pages 3 through 5 are not a required part of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The other financial information on pages 18 - 21 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, accordingly, we express no opinion on it.



Certified Public Accountants

Certified Public Accountants' Report



November 29, 2006

The Board of Directors
Kansas Technology Enterprise Corporation

Management's Discussion and Analysis

The Kansas Technology Enterprise Corporation (KTEC), a component unit of the State of Kansas, has implemented *Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2001. This section of KTEC's annual financial report presents management's analysis of KTEC's financial performance during the fiscal year that ended June 30, 2006. In reading this section, please refer to the accompanying financial statements and notes to financial statements.

Overview of the Financial Statements

The financial section of this report consists of two parts: management's discussion and analysis and the financial statements (including notes to financial statements).

The financial statements of KTEC report information about KTEC using accrual accounting methods similar to those used by state-chartered, not-for-profit entities. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). While conducting a public mission, KTEC operates in a manner very similar to a private business.

Financial Highlights - Fiscal Year 2006

- State appropriations were increased to \$11.8 million from \$11.4 million the previous year. In addition, the State of Kansas approved a carryforward of \$0.45 million from the unencumbered balance as of June 30, 2005 into fiscal year 2006.
- Revenues from investment royalties increased to \$0.17 million from \$0.12 million the previous year.
- A portion of state appropriations, \$0.45 million, is being rolled over into fiscal year 2006.

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3
Certified Public Accountants' Report

Net Assets

The following table summarizes the changes in net assets between June 30, 2006 and 2005 (in millions):

	June 30, 2006	June 30, 2005	Dollar Change	Percent Change
Current assets	\$ 5.1	\$ 4.7	\$ 0.4	8.5%
Non-current assets	9.0	8.5	0.5	5.9%
Total assets	\$ 14.1	\$ 13.2	\$ 0.9	6.8%
Current liabilities	1.0	1.0	-	0.0%
Invested in capital assets	0.1	-	0.1	0.0%
Unrestricted net assets	12.2	11.8	0.4	3.4%
Restricted net assets	0.8	0.3	0.5	166.7%
Total net assets	\$ 13.1	\$ 12.1	\$ 1.0	8.3%

Total net assets at June 30, 2006 increased to \$13.1 million from \$12.1 million at June 30, 2005. Restricted net assets and unexpended appropriations increased by \$0.5 million.

Operating Activities

The following table summarizes the changes in net assets for the fiscal year ended June 30, 2006 (in millions):

Operating revenues:		
Federal grant revenue and other grant revenue		\$ 2.4
Royalties and other		1.8
Total Operating Revenues		\$ 4.2
Operating expenses:		
Grants and awards		\$ 7.6
Other expenses		6.2
Total Operating Expenses		\$ 13.8
Operating Income		\$ (9.6)
Non-operating revenues (expenses):		
Appropriations from the State of Kansas - State Economic Development Initiatives Fund		\$ 11.5
Other		(0.9)
Total Non-operating Revenues		\$ 10.6
Change in net assets		\$ 1.0
Net assets, beginning of year		12.1
Net assets, end of year		\$ 13.1

The increase in net assets was primarily due to the carryover of the prior year's unspent appropriations.

November 29, 2006
The Board of Directors
Kansas Technology Enterprise Corporation
Page three

Major Accomplishments, Trends, and Economic Outlook

The State of Kansas is beginning to recover from the significant budgetary shortfalls experienced in prior years which led to declining appropriations for economic development over five fiscal years through 2004. While the State increased appropriations to KTEC in fiscal years 2005 and 2006, there remains a high level of competition for State funds from a number of programs and agencies.

Royalty income is expected to remain at a similar pace for fiscal year 2007. While equity investments have increased over the last three fiscal years, equity distributions are difficult to predict and the fruits of equity are likely still on to two years ahead.

During the fiscal year, KTEC's major accomplishments included continued implementation of the Kansas Economic Growth Act and support for the Kansas Bioscience Authority, and increased focus on the flow of high level talent through its network, via entrepreneurs-in-residence, for the benefit of the Kansas economy.

In the upcoming fiscal year, management will continue to increase accountability of the entities in which it invests, and will continue to closely oversee its resources and expenditures in order to adapt to opportunities and changing economic opportunities.

Management will continue to maintain a close watch over its resources and expenses to ensure its ability to plan and react to future changing economic conditions.



Certified Public Accountants

Certified Public Accountants' Report

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
CONSOLIDATED BALANCE SHEETS
June 30,

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 3,031,827	\$ 2,778,315
Accounts receivable - Net	1,269,164	1,150,052
Current portion of notes receivable - Net	-	388,659
Receivable from State of Kansas	815,673	341,868
Other assets	-	39,475
Total Current Assets	\$ 5,116,664	\$ 4,698,369
Fixed Assets		
Notes receivable - Net of current portion	823,371	866,558
Investments in limited partners	8,308,096	7,581,806
Capital assets - Net	144,060	34,594
TOTAL ASSETS	\$ 14,392,191	\$ 13,181,327
LIABILITIES & NET ASSETS		
Current Liabilities		
Accounts payable	\$ 568,625	\$ 512,983
Accrued liabilities	100,201	331,240
Deferred revenues	283,975	208,577
Total Current Liabilities	\$ 952,801	\$ 1,052,800
Net Assets		
Invested in capital assets, net of related debt	\$ 144,060	\$ 34,594
Unrestricted net assets	12,479,657	11,752,278
Restricted for grants and awards	815,673	341,655
Total Net Assets	\$ 13,439,390	\$ 12,128,527
TOTAL LIABILITIES & NET ASSETS	\$ 14,392,191	\$ 13,181,327

Financial Statements

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
 (A Component Unit of the State of Kansas)
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
 For The Years Ended June 30,

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Federal grant revenue	\$ 2,390,110	\$ 2,424,429
Royalties	176,923	120,471
Charges for services	1,086,371	1,428,669
Seminar revenues	58,713	60,543
Other revenues	471,587	35,030
Total Operating Income	<u>\$ 4,183,704</u>	<u>\$ 4,069,142</u>
OPERATING EXPENSES		
Grants and awards	\$ 7,616,581	\$ 7,283,162
Regional office expense	1,795,965	2,354,420
Home office expense	1,848,971	1,822,695
Salaries and wages	1,318,132	1,016,004
Contractual services	766,037	607,673
Client fee expense	262,562	312,197
Seminar expense	-	229,898
Bad debt expense	19,624	540,537
Depreciation expense	68,231	81,271
Other	155,299	57,811
Total Operating Expenses	<u>\$ 13,851,402</u>	<u>\$ 14,305,668</u>
OPERATING LOSS	<u>\$ (9,667,698)</u>	<u>\$ (10,236,526)</u>
NON-OPERATING REVENUES		
Appropriations from the State of Kansas - State Economic Development Initiatives Fund	\$ 11,485,097	\$ 11,187,205
Special revenues	77,629	14,519
Interest income	146,373	178,082
Net decrease in fair value of investments	(470,880)	(79,330)
Gain (loss) on sale of investments	-	141
Lapsed appropriations	(361,325)	(461,740)
Prior period adjustment	101,667	100,000
Total Non-Operating Revenues	<u>\$ 10,978,561</u>	<u>\$ 10,938,877</u>
CHANGE IN NET ASSETS	\$ 1,310,863	\$ 702,351
NET ASSETS - BEGINNING OF YEAR	<u>12,128,527</u>	<u>11,426,176</u>
NET ASSETS - END OF YEAR	<u>\$ 13,439,390</u>	<u>\$ 12,128,527</u>

Financial Statements

The accompanying notes are an integral part of these financial statements.
See Certified Public Accountants' Report.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
CONSOLIDATED STATEMENTS OF CASH FLOWS
For The Years Ended June 30,

	2006	2005
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (9,667,698)	\$ (10,236,526)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	\$ 68,231	\$ 81,271
(Increase) decrease in accounts receivable	(592,917)	(11,179)
(Increase) decrease in notes receivable	531,846	137,342
(Increase) decrease in prepaid expenses	39,475	(12,909)
(Increase) decrease in other assets	-	2,555
Increase (decrease) in accounts payable	55,642	(365,912)
Increase (decrease) in accrued liabilities	(231,039)	(296,943)
Increase (decrease) in deferred revenue	75,398	12,054
Total Adjustments	\$ (53,364)	\$ (453,721)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ (9,721,062)	\$ (10,690,247)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	\$ (724,623)	\$ (664,951)
Proceeds from sale and maturities of investments	-	141
Interest on investments - Net of expense	146,373	178,082
Acquisition of capital assets	(648,577)	(91,299)
Net Cash Provided (Used) by Investing Activities	\$ (1,226,827)	\$ (578,027)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Appropriations from the State of Kansas	\$ 11,123,772	\$ 10,725,465
Special revenues	77,629	14,519
Net Cash Provided (Used) by Financing Activities	\$ 11,201,401	\$ 10,739,984
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 253,512	\$ (528,290)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,778,315	3,306,605
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,031,827	\$ 2,778,315
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest expense paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statements of cash flows, the Company considers cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Financial Statements

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 1: Activities

The Kansas Technology Enterprise Corporation (KTEC) is a body politic, corporate, and an instrumentality of the State of Kansas (the State), which was created by the legislature of the State in March 1986 (KSA 74-8101). The responsibilities and duties of the existing State Office of Advanced Technology were transferred to KTEC effective January 12, 1987.

KTEC's principal statutory functions and responsibilities are as follows:

- To foster innovation in existing and developing businesses, especially the creation, growth and expansion of Kansas enterprises in a diversified range of primary sectors which develop value-added products, processes and services.
- To invest in basic research, applied research and development, and technology transfer at Kansas educational institutions which meet competitive standards of excellence and which create innovative collaboration between Kansas educational institutions and Kansas enterprises.
- To award applied research matching grants to Kansas educational institutions and Kansas private enterprises in order to move innovation and applied research toward commercial application.
- To engage in seed-capital financing for the development and implementation of innovations or new technologies for existing resource, technology-based, and emerging Kansas businesses.
- To provide technical referral services to such small, new, emerging or mature businesses and encourage Kansas educational institutions to establish technical information databases and industrial liaison offices that are easily accessible by both private and public sector Kansas organizations.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

KTEC is considered to be a component unit of the State of Kansas, as defined by the Governmental Accounting Standards Board (GASB), and as such the financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

KTEC remains grounded by the above functions and responsibilities as guiding principles. KTEC provides research support for universities and industry; investment, including direct company investment; and business assistance, providing value-added services. The 21st century's central challenge to KTEC's success will be to create the conditions for enhancing the State's prosperity, sustaining productivity and growth.

KTEC assists Kansas entrepreneurs and technology companies by supporting the development and commercialization of new technologies through a statewide network designed and built to support researchers, entrepreneurs, and technology companies through each phase of the technology life cycle. The ultimate goal of the corporation is to create rapid-growth companies, higher paying jobs, and ultimately, a vibrant and sustainable technology-based component to the state's economy.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006 and 2005

Note 2: Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

KTEC's programs and affiliate organizations fall into three basic functional areas:

1. Strategic Research and Development/Centers of Excellence: Five university-based Centers of Excellence conduct applied research of importance to the future of Kansas industry and work with other KTEC programs to translate the research into commercial outcomes. In addition, matching funds are provided in conjunction with federal technology grants in areas of strategic importance to Kansas.
2. Hands-on business Assistance: Technology-based business assistance incubators are operated under unique private/public partnerships (state/local/university) designed to turn intellectual property and science into viable high-growth businesses.
3. Investment funds: KTEC invests in promising early-state technology companies and helps them acquire critical follow-on angel and venture capital.

In its accounting and financial reporting, KTEC follows the pronouncements of the GASB. In addition, KTEC follows only the pronouncements of all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Reporting Entity

KTEC is a component unit of the State as defined in pronouncements of the GASB. The operations of KTEC are primarily funded through appropriations made by the State legislature. Receipt and disbursement of appropriations for KTEC operations are controlled by the State.

The consolidated financials of KTEC include all wholly owned subsidiaries as follows:

- Innovative Technology Enterprise Corporation (ITEC)
- KTEC Holdings, Inc. (KTEC Holdings)
- Mid-America Manufacturing Technology Center (MAMTC)

ITEC is a wholly owned not-for-profit subsidiary of KTEC organized for the purpose of promoting innovation and providing invention development assistance.

KTEC Holdings is the sole limited partner of Technology Partners, LP, which was formed primarily for the purpose of organizing and serving as general partner of Ad Astra Fund, LP and Ad Astra Fund II, LP, both of which were established to make equity, equity-related or debt investments in seed-capital, and early stage financing.

MAMTC is a nonprofit corporation and is wholly owned by KTEC. MAMTC is governed by a 3-member Board, which is controlled by KTEC. MAMTC receives a significant portion of its funding through a grant awarded by the National Institute of Standards and Technology (NIST) and appropriations made by the State legislature.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006 and 2005

Note 2: Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

Financial information is consolidated into KTEC's financials based on consolidated financial statements as of and for the year ended March 31, 2006 and 2005, which are available upon request of MAMTC's management.

Cash and Cash Equivalents

KTEC currently maintains cash and cash equivalent balances only in interest-bearing bank accounts, certificates of deposit, and repurchase agreements, though the investment policy allows other investments in accordance with state guidelines. KTEC considers all highly liquid debt instruments and certificates of deposit purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at fair value.

Accounts Receivable

KTEC uses the reserve method in accounting for bad debts. Under this method, all uncollectible amounts are charged to the allowance account and bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management. Management estimates that substantially all accounts receivable are collectible; therefore, has not established an allowance for doubtful accounts.

Notes Receivable

Notes receivable consist primarily of convertible debentures related to funding of venture capital companies. These notes receivable were due through December 2002, with interest payable upon maturity at a rate of 10% per annum. In connection with these notes receivable, management has established an allowance of \$200,000 as of June 30, 2006 and \$500,000 as of June 30, 2005, based on their estimate of collectibility.

Investments

Limited Partnerships and Economic Development LLCs

In accordance with GASB Statement No. 14 and No. 39, KTEC has classified its investments in limited partnerships and economic development limited liability corporations (LLCs) as joint ventures. Accordingly, joint ventures are recorded using the equity method of accounting. Under the equity method, investments are recorded at cost.

The value of the underlying investments held by the limited partnerships and economic development LLCs has been estimated by the partnerships and economic development LLCs in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the values of these underlying investments may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. The limited partnerships and economic development LLCs believe that the estimated market values of these investments exceed the amounts reported on their balance sheets.

Distribution of net cash receipts and net capital proceeds of the limited partnerships and economic development LLCs is made at the sole discretion of the limited partnerships and economic development LLCs. Distributions are shared among the investors in accordance with their applicable ownership interest as defined in the governing partnership or corporate agreements.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006 and 2005

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Seed Capital Investments

KTEC's venture capital investments are direct equity investments that do not have readily determinable market values. In accordance with GASB Statement No. 31, KTEC records these venture capital investments using the cost method of accounting. Under the cost method, investments are recorded at cost, adjusted for other-than-temporary impairment.

Capital Assets

Capital assets include furniture and equipment, computers and other computer equipment, software, and audiovisual equipment. Capital assets are defined by KTEC as assets with an initial cost of \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or at estimated historical cost where no historical records exist. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of the capital assets was \$1,346,333 and \$1,188,667 (accumulated depreciation of \$1,202,273 and \$1,154,073) with a net book value of \$144,060 and \$34,594 at June 30, 2006 and 2005, respectively. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives range from three to ten years.

Other Assets

Other assets included deferred seminar development costs by MAMTC, which are recorded at cost less accumulated amortization. Such costs are amortized over the estimated useful lives of the seminars of four years.

Compensated Absences

KTEC employees earn vacation based on length of service, and unused vacation days can be carried forward to future years with certain limitations. KTEC accrued the cost of vacation pay as it is earned as a liability in accordance with GASB Statement No. 16.

Sick leave is earned by KTEC employees at a rate of one day per month of employment with no total accumulation limit. Employees are not paid for accumulated sick leave upon termination. The costs of sick leave are recorded when disbursed.

Deferred Revenue

Deferred revenue recorded by MAMTC includes funds received from the State of Kansas prior to being expensed, seminars and prepayments from clients.

Revenue and Expense Classification

KTEC distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing contract services in connection with KTEC's principal ongoing operations. The principal operating revenues are federal grants and grants from the State of Kansas. KTEC's operating expenses include grant project and program costs and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
 (A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2006 and 2005

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies (Continued)

Revenue and Expense Classification (Continued)

When both restricted and unrestricted resources are available for use, it is KTEC's policy to use restricted resources first, then unrestricted resources as needed.

Federal Grant Revenue

In the case of NIST grant monies received by MAMTC, revenues are recorded when the request for funds has been approved by NIST (signifying all matching requirements have been met) and the funds have been deposited into MAMTC's account at the State.

Grants and Awards

Grants and awards are recorded as expenses in the year the grantee or awardee is entitled to the grant or award. Restriction of net assets is recorded for grants and awards outstanding, but not expended because the grantees or awardees are not entitled to such grants or awards until certain conditions are met.

Appropriations Revenue

State appropriations are recorded as receivables (unexpended appropriations) and revenues when appropriation acts become effective. During 2006 and 2005, appropriations revenue was reduced by \$361,325 and \$461,740, respectively, due to lapsed appropriations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Implementation of Governmental Accounting Standards Board Pronouncements

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*, respectively. These statements established standards for external financial reporting for all state and local governmental entities and are the most significant changes in governmental financial reporting in over 20 years. As part of these statements, KTEC was also required to depreciate all capital assets.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30,:

	2006	2005
Bank deposits (interest-bearing bank accounts) and repurchase agreements	\$ 1,519,426	\$ 1,020,164
Certificates of deposit	1,382,417	1,675,000
Cash held by the State	129,984	83,151
	\$ 3,031,827	\$ 2,778,315

Cash in the amount of \$129,984 and \$83,151 held by the State, which is not categorized below, represents grant funds received but not yet expended at June 30, 2006 and 2005, respectively.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006 and 2005

Notes to Financial Statements

Note 3: Cash and Cash Equivalents (Continued)

Custodial credit risk is the risk that in the event of a bank failure, KTEC's deposits may not be returned to them. KTEC does not have a deposit policy for custodial risk. KTEC had \$0 exposed to custodial risk at June 30, 2006, and \$931 exposed to custodial risk at June 30, 2005 as indicated below:

	<u>2006</u>	<u>2005</u>
Deposits covered by federal depository insurance or collateral held by KTEC or its agent in KTEC's name	\$ 500,003	\$ 586,287
Deposits covered by collateral held by pledging financial institution's trust department or by its agent in KTEC's name	2,401,819	2,266,828
Uncollateralized deposits	-	931
Total Deposits (Bank Balance)	<u>\$ 2,901,822</u>	<u>\$ 2,854,046</u>

Note 4: Investment in Limited Partners

Investments consisted of the following at June 30,:

	<u>2006</u>	<u>2005</u>
Investments in limited partnerships		
Technology Partners, LP	\$ -	\$ 330,936
Investments in economic development LLCs		
Kaw Holdings, LLC	-	305,423
Wichita Technology Ventures, LLC	931,286	931,286
Manhattan Holdings, LLC	619,387	619,387
Prairie Investments for Technology Advancement, LLC	281,415	281,415
Quest Ventures, LLC	187,253	187,253
Milestone Ventures, LLC	130,298	130,298
Precede Fund, LLC	193,279	193,279
Seed capital investments		
Bi-State Investment Group, LLC	50,000	50,000
Neon Royalty, LLC	38,000	38,000
CritiTech, Inc.	306,524	167,000
QuVis, Inc.	155,196	155,196
Relight America, Inc.	131,252	131,252
Environmental Compliance Consulting, Inc.	-	30,000
Redemption Plus, Inc.	90,784	90,784
Aero Comm, Inc.	156,662	205,393
Nanoscale Materials, Inc.	250,000	250,000
Control Vision Corporation	200,000	200,000
Living Naturally	99,072	99,072
Magic Lantern, LLC	56,667	55,000

(Continued)

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006 and 2005

Note 4: Investment in Limited Partners (Continued)

Investments consisted of the following at June 30,:

	<u>2006</u>	<u>2005</u>
Seed capital investments (Continued)		
NutriJoy, Inc.	337,657	337,657
Hiper Technology	150,000	150,000
Vasogenix Pharmaceuticals, Inc.	200,077	200,000
LaGarde, Inc.	100,000	100,000
iModules Software, Inc	165,000	165,000
Kozoru, Inc.	666,666	500,000
CyDex, Inc.	378,224	378,224
Nexgenesis, LLC	-	100,000
Pixius Communications, LLC	100,000	100,000
PowerSmart, LLC	125,000	125,000
Softvu, LLC	160,000	125,000
Tech Guys Inc.	250,000	250,000
Winglet Technology, LLC	150,000	50,000
Chemidex	207,200	100,000
Griffin Technology	100,000	100,000
IRR - Residential	200,000	200,000
NUVIO Corporation	149,951	149,951
Deciphera	226,799	-
Heartland Technologies	150,040	-
Innovia Medical	150,000	-
Proteon Therapeutics, LLC	181,864	-
Sportvision	42,100	-
Urigen	240,444	-
Total	<u>\$ 8,308,097</u>	<u>\$ 7,581,806</u>

KTEC Holdings hold an equity position in Wichita Technology Ventures, LLC, Manhattan Holdings, LLC, Prairie Investments for Technology Advancement, LLC, Quest Ventures, LLC, Milestone Ventures, LLC, and Precede Fund, LLC. These entities were co-organized by KTEC and others to make equity-related investments in preseed and other early stage financings. KTEC Holdings is in no way obligated to provide future funding to any of the joint ventures. Separate financial statements are available from each of the joint ventures upon request of the joint ventures' management.

Note 5: Employee Pension Plan

Substantially all employees of KTEC and MAMTC participate in the Kansas Public Employees Retirement System (KPERs), a cost-sharing, multiple-employer, defined benefit pension plan as provided by KSA 74, Article 49. Substantially all employees of KTEC and MAMTC are eligible to participate in KPERs after one year of employment.

KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERs (611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603) or by calling 1-800-275-5737.

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
June 30, 2006 and 2005

Notes to Financial Statements

Note 5: Employee Pension Plan (Continued)

Employees are required by State statute to contribute 4% of their covered salary. The employer collects and remits employee contributions according to provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established for calendar year 2006 was 5.27%.

KTEC's employer contribution to KPERS for the years ended June 30, 2006, 2005 and 2004 were \$39,183, \$34,282 and \$29,402, respectively, equal to the required contributions for each year. The component unit's, MAMTC, employer contributions to KPERS for the years ended March 31, 2006, 2005 and 2004 were \$20,037, \$28,832 and \$32,076, respectively, equal to the required contributions for each year.

Note 6: Operating Leases

KTEC leases office space and certain office equipment under operating lease agreements with remaining lease terms of four years. Future minimum payments under these lease agreements are as follows:

<u>Year Ending</u> <u>June 30</u>	
2007	\$ 123,563
2008	129,648
2009	129,648
2010	129,648
Total	<u><u>\$ 512,507</u></u>

MAMTC's commitment for operating leases is approximately \$100,000 per year through fiscal year 2009. KTEC's rent expenses for the years ended June 30, 2006 and 2005 were \$125,483 and \$125,560, respectively. MAMTC's rent expense for the years ended March 31, 2006 and 2005 was \$135,905 and \$204,114, respectively.

Note 7: New Program Announced in June 2006 (to be first funded in FY 2007):

The KTEC Pipeline is a new intensive entrepreneur mentoring program that develops talent for the purpose of promoting one of the critical elements of technology-based companies - technology business leaders. Successful outcomes will include winning companies formed and jobs and wealth created. Short-term outcomes will produce leaders prepared as technology entrepreneurs who can build companies, support entrepreneurial growth within established companies, become investors, or assume other leadership roles within the entrepreneurial support infrastructure.

SUPPLEMENTAL INFORMATION

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
CONSOLIDATING BALANCE SHEET

	Kansas Technology Enterprise Corporation As of <u>June 30, 2006*</u>	Mid-America Manufacturing Technology Center As of <u>March 31, 2006</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 913,374	\$ 2,118,453	\$ 3,031,827
Accounts receivable - Net	63,064	1,206,100	1,269,164
Receivable from State of Kansas	815,673	-	815,673
Total Current Assets	<u>\$ 1,792,111</u>	<u>\$ 3,324,553</u>	<u>\$ 5,116,664</u>
Notes receivable	823,371	-	823,371
Investments in limited partners	8,308,096	-	8,308,096
Capital assets - Net	6,145	137,915	144,060
TOTAL ASSETS	<u>\$ 10,929,723</u>	<u>\$ 3,462,468</u>	<u>\$ 14,392,191</u>
LIABILITIES & NET ASSETS			
Current Liabilities			
Accounts payable	\$ -	\$ 568,625	\$ 568,625
Accrued liabilities	49,661	50,540	100,201
Deferred revenues	-	283,975	283,975
Total Current Liabilities	<u>\$ 49,661</u>	<u>\$ 903,140</u>	<u>\$ 952,801</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 6,145	\$ 137,915	\$ 144,060
Unrestricted net assets	10,058,244	2,421,413	12,479,657
Restricted for grants and awards	815,673	-	815,673
Total Net Assets	<u>\$ 10,880,062</u>	<u>\$ 2,559,328</u>	<u>\$ 13,439,390</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 10,929,723</u>	<u>\$ 3,462,468</u>	<u>\$ 14,392,191</u>

* Includes consolidated operations of ITEC and KTEC Holdings, Inc.

Supplemental Information

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

	Kansas Technology Enterprise Corporation for the Year Ended June 30, 2006*	Mid-America Manufacturing Technology Center for the Year Ended March 31, 2006	Total
OPERATING REVENUE			
Federal grant revenue	\$ -	\$ 2,390,110	\$ 2,390,110
Royalties	176,923	-	176,923
Charges for services	-	1,086,371	1,086,371
Seminar revenues	-	58,713	58,713
Other revenues	462,718	8,869	471,587
Total Operating Income	\$ 639,641	\$ 3,544,063	\$ 4,183,704
OPERATING EXPENSES			
Grants and awards	\$ 7,616,581	\$ -	\$ 7,616,581
Regional office expense	-	1,795,965	1,795,965
Home office expense	-	1,848,971 **	1,848,971
Salaries and wages	1,318,132	-	1,318,132
Contractual services	766,037	-	766,037
Client fee expense	-	262,562	262,562
Bad debt expense	-	19,624	19,624
Depreciation expense	3,293	64,938	68,231
Special revenues	64,726	-	64,726
Other	24,146	66,427	90,573
Total Operating Expenses	\$ 9,792,915	\$ 4,058,487	\$ 13,851,402
OPERATING LOSS	\$ (9,153,274)	\$ (514,424)	\$ (9,667,698)
NON-OPERATING REVENUES			
Appropriations from the State of Kansas - State Economic Development Initiatives Fund	\$ 10,817,798	\$ 667,299	\$ 11,485,097
Special revenues	77,629	-	77,629
Prior period adjustment	(259,658)	-	(259,658)
Interest income	83,484	62,889	146,373
Net decrease in fair value of investments	(470,880)	-	(470,880)
Total Non-Operating Revenues	\$ 10,248,373	\$ 730,188	\$ 10,978,561
CHANGE IN NET ASSETS	\$ 1,095,099	\$ 215,764	\$ 1,310,863
NET ASSETS - BEGINNING OF YEAR	9,784,963	2,343,564	12,128,527
NET ASSETS - END OF YEAR	\$ 10,880,062	\$ 2,559,328	\$ 13,439,390

* Includes consolidated operations of ITEC and KTEC Holdings, Inc.

** In April 2006, MAMTC central office employees (with the exception of one person) were transitioned out-of-state government and became direct employees of the MAMTC corporation.

Supplemental Information

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
CONSOLIDATING STATEMENT OF CASH FLOWS

	Kansas Technology Enterprise Corporation for the Year Ended June 30, 2006*	Mid-America Manufacturing Technology Center for the Year Ended March 31, 2006	Total
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (9,153,274)	\$ (514,424)	\$ (9,667,698)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	\$ 3,293	\$ 64,938	\$ 68,231
(Increase) decrease in accounts receivable	(535,186)	(57,731)	(592,917)
(Increase) decrease in notes receivable	531,846	-	531,846
(Increase) decrease in prepaid expenses	-	39,475	39,475
Increase (decrease) in accounts payable	-	55,642	55,642
Increase (decrease) in accrued liabilities	(16,399)	(214,640)	(231,039)
Increase (decrease) in deferred revenue	-	75,398	75,398
Total Adjustments	<u>\$ (16,446)</u>	<u>\$ (36,918)</u>	<u>\$ (53,364)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (9,169,720)</u>	<u>\$ (551,342)</u>	<u>\$ (9,721,062)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	\$ (724,623)	\$ -	\$ (724,623)
Interest on investments - Net of expense	83,484	62,889	146,373
Acquisition of capital assets	(470,880)	(177,697)	(648,577)
Net Cash Provided (Used) by Investing Activities	<u>\$ (1,112,019)</u>	<u>\$ (114,808)</u>	<u>\$ (1,226,827)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Appropriations from the State of Kansas	\$ 10,456,473	\$ 667,299	\$ 11,123,772
Special revenues	77,629	-	77,629
Net Cash Provided (Used) by Financing Activities	<u>\$ 10,534,102</u>	<u>\$ 667,299</u>	<u>\$ 11,201,401</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 252,363</u>	<u>\$ 1,149</u>	<u>\$ 253,512</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>661,011</u>	<u>2,117,304</u>	<u>2,778,315</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 913,374</u>	<u>\$ 2,118,453</u>	<u>\$ 3,031,827</u>

*includes consolidated operations of ITEC and KTEC Holdings, Inc.

Supplemental Information

KANSAS TECHNOLOGY ENTERPRISE CORPORATION
(A Component Unit of the State of Kansas)
CONSOLIDATING STATEMENT OF CASH FLOWS (CONTINUED)

	Kansas Technology Enterprise Corporation for the Year Ended June 30, 2006*	Mid-America Manufacturing Technology Center for the Year Ended March 31, 2006	<u>Total</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest expense paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

DISCLOSURE OF ACCOUNTING POLICY

For purposes of the statements of cash flows, the Company considers cash and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Supplemental Information



Kansas Technology Enterprise Corporation

20 Years of Impacting Technology-Based
Economic Development in Kansas

January 12, 2007

Senate Commerce Committee
February 7, 2007
Attachment 2-1

January 12, 2007

Governor Sebelius, Kansas Legislators and Fellow Kansans:

This date marks the 20th anniversary of the launch of the Kansas Technology Enterprise Corporation (KTEC).

KTEC was established by the State of Kansas on January 12, 1987 as a non-profit, quasi-public organization with a mission to create and maintain employment by fostering innovation, stimulating the commercialization of new technologies and promoting the creation, growth and expansion of Kansas enterprises.

A significant anniversary presents an opportunity to reflect on past achievements and challenges alike, and to comment on important questions about the future. It is important for the KTEC leadership team to communicate with you what we have learned from our past as we execute our plans in the present and develop new strategies for the future.

As a supplement to our annual report, which will be distributed to you before the end of this month, the KTEC leadership team has developed this historical analysis of our operations with the overriding theme of *impact*.

Is KTEC making a positive difference for the people of Kansas? Is our leadership team serving as good stewards of state resources? Are KTEC operations realizing holistic returns on invested resources for the citizens of Kansas?

These are questions we look forward to addressing every year, and not just when the Legislature is in session. We aspire to affirmatively answer these questions with each transaction and each interaction managed by the dozens of professionals associated with the KTEC network.

Over the past 20 years, KTEC has enjoyed reporting to you many successful endeavors where KTEC professionals made a positive difference with substantial direct or indirect benefit to the State. Though not all of our investments will bear fruit, our unique niche in the economic development landscape requires that we take calculated risks, learn from mistakes and move on to the next opportunity. After all, we are in the business of fostering innovation, and we must strive to operate as innovators ourselves.

I hope you enjoy this brief retrospective, and that you will continue to engage with KTEC in an ongoing dialogue about how to bring even greater economic prosperity to Kansans from all walks of life through homegrown innovation and technology commercialization endeavors.

Sincerely,



Tracy Taylor
President and CEO
Kansas Technology Enterprise Corporation

Index

Executive Summary	2
Mission	7
History and Chronology	8
- Inception and Early Operations	8
- Leadership	8
- Chronological Account of Key Organizational Developments	10
- Prior Evaluations of KTEC Operations	14
Positioning Kansas Regents Universities as Drivers	16
- University-Industry Research Centers	16
- Eminent Scholars Programs	19
- Industry-University Matching Grants	21
Fostering Entrepreneurship	22
- Commercialization Corporations and Business Assistance Services	22
- Kansas Center for Entrepreneurship	24
- KTEC Pipeline Technology Fellowship Program	24
- Advisor to the Entrepreneurial Development Community	25
Increasing Access to Capital	26
- Applied Research Matching Funds and Seed Capital Fund	26
- KTEC Investments Process	28
- Angel Investor Networks	31
- Angel Investor Tax Credits	31
References	32

ROI = Return on Investment. A quantitative performance measurement used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.

Since the inception of our organization, KTEC has endeavored to provide Kansas lawmakers with timely and comprehensive numbers to measure the performance of investments in our programs and operations. Primarily through client surveys, we have provided hard numbers on our impact from the year, such as (FY2006 numbers and cumulative from 1984-2006, dating to KTEC's predecessor organization):

	FY 2006	Cumulative 1984-2006
State investment	\$11.4 million	\$207.7 million
Industry investment	\$4.3 million	\$155.4 million
Federal investment	\$88.6 million	\$479.7 million
Venture capital investment	\$32.4 million	\$366.6 million
Leverage: non-state to state funds	\$11:1	\$4.8:1
Increased sales	\$158 million	\$1.5 billion
Jobs created or retained	557	15,500
Company start-ups	15	416
Investment returns	\$177,000	\$12.9 million

The numbers, however, only tell part of the story. Numbers alone are insufficient to describe the impact of an organization tasked with fostering innovation in new and existing technology companies across a broad spectrum of industries, primarily because **true impact often escapes measurement.**

The measurement challenge is not unique to our niche industry of state sponsored technology-based economic development. For example, consider the challenge advertising firms face in justifying the ROI from brand advertising. When Sprint launched the "pin drop" advertising campaign, revenues and profits increased substantially. But how much of the increase resulted from advertising? Technology advances and direct sales campaigns played a major role. And even if you could isolate the advertising variable, can you trace sales sufficiently to determine whether print advertising was more or less effective than television spots? Despite the inherent lack of precision, executives know that advertising is necessary, and they continuously strive to find new measurements that give better insights into the methods and practices that work better than others.

In industries where measuring results from isolated investments or activities is a challenge, executives often rely on case studies or best practices derived from testimonials of what has worked and what has not. Fortunately, KTEC has an accessible resource in the State Science and Technology Institute (SSTI), "a national non-profit organization dedicated to improving government-industry programs that encourage economic growth through the application of science and technology."

Executive Summary

In August 2006, SSTI published *A Resource Guide for Technology-Based Economic Development: Positioning Universities as Drivers; Fostering Entrepreneurship; and Increasing Access to Capital*. This comprehensive 96-page report (which can be downloaded for free at the SSTI website: <http://www.ssti.org>) was prepared from interviews with nearly 60 technology-based economic development practitioners, several of which have Kansas connections, including:

- **Bill Brundage**, KTEC's first President and subsequently the leader of statewide technology-based economic development initiatives in Florida and Kentucky;
- **Rich Bendis**, KTEC's second President and recently the CEO of Innovation Philadelphia;
- **Ron Sampson**, the recently retired leader of K-State's National Institute of Strategic Technology Acquisition and Commercialization (NISTAC); and
- **Tom Thornton**, the recently appointed CEO of the Kansas Bioscience Authority.

What can Kansans learn from studying what other states are doing to gain a competitive advantage in the 21st century economy? For one, Kansans can assess whether the organizations supported with their tax dollars are developing and sustaining cutting-edge programs and initiatives.

To offer a different perspective on how KTEC has served Kansas since it was officially opened for business on January 12, 1987, we have accumulated highlights from 20 years of KTEC annual reports and organized them along the same lines as the SSTI Resource Guide. Throughout this document, Kansans can see evidence of dozens of professionals who have worked within the network of KTEC affiliates to deliver substantive economic development outcomes. Following are brief introductions to the three major sections of the SSTI Resource Guide as well as this report:

Positioning Kansas' Regents Universities as Drivers

It is widely accepted that state sponsored research universities can be effectively leveraged into economic engines for the state economy. University researchers and graduate students develop innovations and intellectual property that often serve as the genesis for homegrown technology companies. Since its inception, KTEC has been a national leader with *university-industry research centers* and continues to financially and strategically support KTEC Centers of Excellence at the University of Kansas, Kansas State University, Wichita State University and Pittsburg State University.

Through its central role in the conceptualization, research, development, drafting, marketing and implementation of the **Kansas Economic Growth Act (KEGA)** legislation in 2004, KTEC successfully promoted two strategies that have been developed and proven effective in other states:

- 1) Contributing substantial state resources towards the recruitment of *eminent scholars* and *rising star scholars*, and

Executive Summary

- 2) Developing an *industry-university matching grants* program whereby “research vouchers” are awarded by the state to private sector companies for the purpose of sponsoring university research.

Both of these strategies were deployed as part of KTEC’s comprehensive bioscience initiatives and were assigned to the **Kansas Bioscience Authority** to implement, with the caveat that the “authority will take steps to reasonably ensure that it does not duplicate existing commercialization efforts already located in the state and recognizes the important role KTEC plays in the state.”¹

Fostering Entrepreneurship

In 1995, KTEC substantially expanded its services to Kansas’ technology entrepreneurs by developing three KTEC Commercialization Corporations in Lawrence, Manhattan and Wichita. These university-community business assistance corporations complemented existing services intended for general manufacturing firms and delivered primarily through KTEC’s Mid-America Manufacturing Technology Center (MAMTC) outposts. Today, KTEC supports eight “business assistance incubators” throughout Kansas in addition to MAMTC.

Also through KEGA, KTEC supported the development of the **Kansas Center for Entrepreneurship**, which is based in Wichita and doing business as *Network Kansas*. KTEC is represented on the board of the Center for Entrepreneurship and is actively supporting its Director, Steve Radley, to strive towards a seamless integration of entrepreneurship education and support services for Kansans from all walks of life and in every corner of the state. Whereas KTEC is focused exclusively on technology enterprise, we recognize that supporting entrepreneurship in all forms is essential for a prosperous Kansas and realize the value of investing state resources for a strong Network Kansas and its SBDC, university and community college partners.

This year, KTEC is launching a new program designed to identify high potential technologists and provide them with entrepreneurship education, mentoring and seed capital funding for the pursuit of their entrepreneurial endeavors in Kansas. The inaugural class of the **KTEC Pipeline** begins its yearlong program this month with the first of four quarterly 20-hour training programs. While working on their present entrepreneurial initiatives, the *Pipeline Innovators* will gain knowledge and social network connections that can serve them for a lifetime of entrepreneurial pursuits in Kansas.

Increasing Access to Capital

From its first year of operations, KTEC leadership recognized that technology companies in our state are inherently disadvantaged when pursuing venture capital investment due to the scarcity of venture capital funds in our geographic region. Therefore, KTEC has searched for, and continues to develop, strategies for leveling the playing field for high potential technology companies doing business in Kansas. The primary method employed is providing for direct *seed stage* investments in technology companies with strong ties to Kansas.

Early in its history, KTEC provided *applied research matching grants* for primarily small manufacturing and technology firms doing business in Kansas. In 1993, KTEC

Executive Summary

began taking royalty positions in the research projects it funds, and by 2003 the strategy had evolved to where KTEC now provides seed stage financing in exchange for an equity position. Though not the primary measure by which the success of these programs are measured, KTEC has received back more than \$12.9 million of combined royalties and equity returns from more than 460 investment transactions in its 20-years of operations.

KTEC business assistance incubators participate in developing a strong pipeline of opportunities for the KTEC seed stage fund, and several of them also have developed local networks of *angel investors* as a source of early stage financing and business mentoring for technology companies in their communities. KTEC also helped make angel investing attractive for Kansans by developing the Angel Investor Investment Act legislation in KEGA. Administered by KTEC, this program administers \$2 million of personal income tax credits annually as incentives for accredited investors investing in qualified technology companies that KTEC has evaluated as having the highest economic development potential for Kansas.

At its January 2007 board meeting, the Kansas Bioscience Authority took another step towards implementing a capital formation strategy for bioscience companies that KTEC developed for the Bioscience Authority while it was in its own formative stages. *Heartland BioEnterprise* will be modeled after a successful Cleveland, Ohio nonprofit organization, *BioEnterprise*, which has substantially increased the flow of venture capital investment into Northeast Ohio healthcare technology companies. One year after KTEC led the development of the *Heartland BioEnterprise* strategic plan in coordination with the leadership of Cleveland's *BioEnterprise*, the newly appointed CEO of the Bioscience Authority presented the strategy and gained renewed commitment from the Authority's board to begin implementation with the recruitment of a CEO.

Taking Calculated Risks to Keep Kansas at the Forefront

Whether developing seed stage venture funds, investing in university research with strong commercialization potential, leading the development of landmark economic development legislation for the biosciences, or aggressively pursuing the recruitment of Ventria Bioscience, a world-leading plant biotechnology company with extraordinary economic potential for the state, KTEC has stayed at the leading edge of technology-based economic development for 20 years.

A year ago, a Legislator commented after hearing an update on KTEC's new initiatives and strategies that "we never get the same-as-last-year presentation from KTEC." The professionals on our staff, which have been primarily recruited with strong backgrounds in the private sector, take pride in our organizational abilities to develop leading edge programs for Kansas.

But we do so much more than just dream up big ideas. We identify, recruit and empower talented individuals, often from private industry, to see our big ideas through to implementation. As we are promoting a culture of innovation, we must be willing to accept that failures will happen and that the best we can do is

Executive Summary

to recognize it when it happens, learn from the experience and do everything possible to find success with the next opportunity.

* * *

The KTEC board, management team and staff are grateful for 20 years of support from the Kansas Legislature and the Governor's Administration, and we are committed to never taking that support for granted. We welcome comments and input on our strategy from all Legislators. We will accept criticism with an innovator's commitment to learn and improve. And we will never tire from telling our story, because it is important for 21st century innovators to know that Kansas is a great place from which to start, develop and grow technology companies with the potential to change the world.

Mission

KTEC exists by mandate of the Kansas Legislature and derives its mission from statutes. **In all aspects of its operations, KTEC strives to fulfill the legislative intent of the statutes** as its executive leadership has interpreted them with the guidance of its board of directors, the Governor's Administration, and the Legislature's House and Senate Economic Development and Commerce committees. Our leadership team strives to make KTEC's operations transparent and our strategies clear to the state's lawmakers and executive leadership.

74-8102. Purpose; ways of achieving.

- (a) The purpose of the Kansas technology enterprise corporation is to foster innovation in existing and developing businesses, especially the creation, growth and expansion of Kansas enterprises in a diversified range of primary sectors, which develop value-added products, processes and services including, but not limited to:
 - (1) Existing resource-based industries of agriculture, oil, gas, coal and helium;
 - (2) existing advanced technology industries of aviation, pharmaceuticals, computers and electronics; and
 - (3) emerging industries of telecommunications, computer software, information services and research services.
- (b) The corporation shall achieve the purpose stated in subsection (a) of this section by:
 - (1) Financing basic research, applied research and development, and technology transfer at Kansas educational institutions which meet competitive standards of excellence as measured by national and international peers, and which create innovative collaboration between Kansas educational institutions and Kansas enterprises;
 - (2) awarding applied research matching grants to Kansas educational institutions and Kansas private enterprises in order to move innovation and applied research toward commercial application;
 - (3) engaging in seed-capital financing for the development and implementation of innovations or new technologies for existing resource, technology-based and emerging Kansas businesses; and
 - (4) providing technical referral services to such small, new, emerging or mature businesses and encouraging Kansas educational institutions to establish technical information data bases and industrial liaison offices which are easily accessible by both private and public sector Kansas organizations.
- (c) The department of commerce, Kansas, Inc. and all other interested state agencies shall cooperate with the Kansas technology enterprise corporation in providing information and other assistance as may be requested for the performance of its duties with respect to the state's economic development strategy.

Inception and Early Operations

In March of 1986, the Legislature of the State of Kansas passed Senate Bill No. 755, establishing the Kansas Technology Enterprise Corporation to supersede the Kansas Advanced Technology Commission. KTEC was established as a non-profit, quasi-public instrumentality of the state of Kansas on January 12, 1987.²

As its first order of business, KTEC established the management structure, programs and funding levels in order to meet the intent of the legislation. Its first president, Bill Brundage, was appointed on October 2, 1987. Prior to beginning the official work of KTEC, Dr. Brundage submitted a business plan to the KTEC board that outlined a strategy to make KTEC nationally competitive with similar state programs. The board approved the KTEC business plan on February 22, 1988 and submitted it to the Joint Committee on Economic Development for review and evaluation.³

As described in KTEC's first annual report, the strategic planning process was extensive and involved a substantial commitment of time from KTEC's board of directors. "From the time of its selection to the end of the fiscal year, the board met with (Dr. Brundage) 10 times, taking an active role in shaping KTEC's future."⁴

Leadership

KTEC is governed by a 20-member board of directors comprised of financial, industrial, academic and government leaders in Kansas.⁵ The KTEC board meets quarterly to approve investments of resources in its various economic development programs, including recommendations from the university programs committee, commercialization committee, and investment committee. The board also has a standing audit committee, compensation committee and executive committee to complete an effective system of governance for the organization. By law, the KTEC board elects a chairperson from the private sector board members.⁶ Since its inception, twelve individuals have served in this role (see Table 1, p.9).

Kansas statutes also require that KTEC conduct a national search for its president, who serves as the chief executive officer of the organization.⁷ KTEC has had three presidents in its 20-year history. **Bill Brundage** was chosen as KTEC's first president following an extensive nine-month search process. Coincidentally, the two individuals who succeeded Bill Brundage after a competitive national search processes – **Rich Bendis** and **Tracy Taylor** – had previously served as KTEC board chairman.

Within the niche industry of state-sponsored technology-based economic development, KTEC's executive leadership has always been highly regarded. Bill Brundage was recruited away from Kansas to serve the state of Florida, and he subsequently became the Commissioner of the Office of the New Economy for the Commonwealth of Kentucky. After eight years of distinguished service to Kansas, Rich Bendis was recruited serve as the CEO of Innovation Philadelphia. Tracy Taylor brings extensive private sector experience to the position. He was involved in the startup of Sprint and served in various leadership positions, including VP of Administration, for the first 12 years of Sprint's explosive growth.

History and Chronology

Table 1: KTEC Executive Leadership

Year	KTEC Board Chairperson	KTEC President	
1987-88	Richard A. Bendis	William G. Brundage	
1988-89	John Davis		
1989-90	John Moore		
1990-91	Carol Wiebe		
1991-92	Lloyd T. Silver, Jr.		
1992-93			
1993-94	R.J. Breidenthal, Jr.	Richard A. Bendis	
1994-95	Ross Beach		
1995-96	Tracy B. Taylor		
1996-97			
1997-98			
1998-99			
1999-00			
2000-01	Jim Dahmen		Tracy B. Taylor
2001-02	Ted Haggart		
2002-03			
2003-04	Lindsay Olsen		
2004-05			
2005-06			
2006-07	Doug Brush		

Table 2: KTEC Board Members

Since 1987, there have been 80 Kansans serve on the KTEC board of directors:

F. Victor Sullivan, 1987-96	Bob Knight, 1993-94	David Shulenburger, 2000-06
John Breazeale, 1987-92	Othello Curry, 1994-96	Ted Haggart, 2000-present
Harland Priddle, 1987-89	William J. Wilhelm, 1994-99	Doug Brush, 2000-present
John Davis, 1987-91	Leroy Hayden, 1994-2000	Richard Danforth, 2000-02
John Moore, 1987-91, 2003-05	Vern Silvers, 1994-96	Dan Cain, 2001-present
Richard Teichgraeber, 1987-88	Bruce Peterman, 1994-98	Doug Gatewood, 2001-present
Rochelle Chronister, 1987-92	Doyle Rahjes, 1995-2003	John Voeller, 2001-02
David Van Doren, 1987-88	William Mason, 1995-2002	Carmen Alldritt, 2002-present
George Dean, 1987-2000	Susan Bittel, 1995-99	Dennis Deppenbusch, 2002-03
David Kerr, 1987-97	Howard Mossberg, 1995-97	David Brant, 2003-present
Theodore Kuwana, 1987-94	Kurt Saylor, 1995-97	Lindsay Olsen, 2003-06
Norma Daniels, 1987-92	Tracy Taylor, 1995-2001	John Payne, 2003-04
Richard Bendis, 1987-93	Allie Devine, 1995-98	Adrian Polansky, 2003-present
Carol Wiebe, 1987-94	Gary Sherrer, 1995-2002	Kenny Wilk, 2003-present
Walter Woods, 1987-88	Steve Hanvey, 1996	Gerald "Skip" Loper, 2004-06
Gale Simons, 1989-96	Galen Swenson, 1996	Robert Murdock, 2004-present
Lois Schlickau, 1989-90	Jim Dahmen, 1996-2004	Linda Reinhardt, 2004-present
D. Wayne Zimmerman, 1990-91	John Darling, 1997-98	Tim Shallenburger, 2004-present
Lloyd T. Silver, 1990-2001	Stephen Souder, 1997-2002	Chris Steineger, 2004-present
Sam Brownback, 1991-92	Doug Mahin, 1997-99	Nick Jordan, 2005-present
Laura Nicholl, 1991-92	Robert Krause, 1997-2006	Steve Kelly, 2006
Ivan Wyatt, 1991-94	Tom Sarowski, 1998-99	Richard Lariviere, 2006
R.J. Breidenthal, Jr., 1992-94	David Corbin, 1998-2004	Tom Lauerman, 2006
Paul Feleciano, 1993-2003	Allen Levine, 1999-2001	David McDonald, 2006
Ross Beach, 1993-95	Tom Bryant, 1999-2006	Kyle Elliott, 2006
Bob Mead, 1993-94	Jamie Clover Adams, 1999-2002	Ron Trewyn, 2006
Phil Fishburn, 1993-94	Donald Beggs, 2000-03	

History and Chronology

Chronological Account of Key Organizational Developments

Following is a brief summation of organizational developments, significant events and operational highlights during KTEC's 20 years of service to Kansas (inclusive of four years of KATC, the predecessor organization to KTEC):

1983	Kansas Advanced Technology Commission (KATC) established within the Kansas Department of Economic Development
	Center for BioAnalytical Research (CBAR) established at the University of Kansas. This first "center of excellence" would be reorganized as the Higuchi Biosciences Center in 1988.
1984	Center for Research in Computer-Controlled Automation (CRCCA) established at Kansas State University. CRCCA would be reorganized in 1991 as the Advanced Manufacturing Institute (AMI).
1985	Institute for Aviation Research established at Wichita State University (renamed National Institute for Aviation Research in 1990).
1986	Publication of Redwood-Krider report, which provided recommendations that were enacted into law by the Kansas Legislature.
	KTEC created by the Kansas Legislature as a state-owned corporation.
1987	KTEC became operational, inheriting all KATC programs as well as oversight of previously established centers of excellence.
1988	Dr. William Brundage selected as KTEC's first president and chief executive officer following an extensive 9-month national executive search process.
	Center for Technology Transfer at Pittsburg State University funded as a KTEC Center of Excellence.
	Ad Astra Fund established, with Campbell-Becker, Inc. of Lawrence selected as fund manager, marks State's first investment in seed capital for technology companies.
1989	Kansas Value Added Processing Center (KVAC) established at Kansas State University with KTEC seed funding.
	Center of Excellence in Computer-Aided Systems Engineering (CECASE) established at the University of Kansas. In 1997, it would be merged with KU's Telecommunications and Information Sciences Laboratory to create the Information and Telecommunications Technology Center (ITTC) and would remain a KTEC center of excellence.
1990	Industrial Liaison program organized with two regional offices: the Western Kansas Technology Corporation, Great Bend; and Tech-Industry Consultants, Inc., Lenexa. These organizations were the first established in the KTEC business assistance network.
1991	Mid-America Manufacturing Technology Center (MAMTC) established with a 6-year, \$12.9 million competitive award from the National Institute of Standards and Technology (NIST).
	Kansas Science & Technology Council (KSTC) formed as an advisory group to Kansas Inc. In 1993, oversight was transferred to KTEC.
	KTEC supports successful application for Kansas to be designated as an EPSCoR state (Experimental Program to Stimulate Competitive Research). In 1994, oversight of the state's EPSCoR program was assigned to KTEC.
1993	KVAC became a subsidiary of KTEC.

History and Chronology

1994	Following a yearlong executive search process, Richard A. Bendis, a private sector investment manager from Leawood, was selected as KTEC's second president and chief executive officer.
	Four pre-seed capital funds established within KTEC network.
	KTEC established a Graduate Intern Program through a grant from the Ewing Marion Kauffman Foundation's Center for Entrepreneurial Leadership. 55 interns were supported with \$542,000 of funding from Kauffman over three years.
1995	Three commercialization corporations (aka business assistance incubators) established: Kansas Innovation Corporation, Lawrence; Mid-America Commercialization Corporation, Manhattan; and Wichita Technology Corporation, Wichita.
	KTEC creates bridge funding for Small Business Innovation Research (SBIR) award recipients. In 1996, KTEC's work with the SBIR program resulted in one of the first ever Tibbets Awards from the US Small Business Administration's Office of Advocacy.
1996	Innovation and Commercialization Corporations (commonly referred to as KTEC business assistance incubators) were established in five locations throughout Kansas.
	KTEC received the Federal Laboratory Consortium Mid-Continent Regional industry/non-federal government/university award.
1997	NIST awarded \$85,000 to KTEC to develop a program identified as the State SBIR program.
	A \$700,000 grant from NIST allowed MAMTC to establish Capital for Manufacturers to help manufacturers access existing sources of financing.
1998	A Legislative Post Audit Committee found that Campbell-Becker Inc., Lawrence, acted appropriately and according to guidelines and statutes in all Ad Astra investments. The report affirmed that Campbell-Becker, KTEC's designated fund manager for early stage technology investments, followed accepted industry standards in the selection of small companies receiving funding. The Post Audit inquiry resulted from controversy over two Ad Astra investments.
	The KTEC board of directors voted to rescind the decision to create Sunflower Technology Ventures Fund, a proposed \$30 million venture capital fund. KTEC returned approximately \$3.5 million to the state that had been appropriated for the STV start-up that was approved with legislative support in 1995.
1999	Knowledge Communications, a Wichita Technology Corporation client company founded by a 21-year-old Wichita State student, was acquired by Harcourt General for greater than \$12 million for a 10x return on investments by KTEC and its affiliated organizations.
	The Entrepreneur In Residence Program was established with funding assistance from the Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation.
2000	The Applied Research Matching Fund reached \$1 million in royalty paybacks.
	The Technology Acquisition Development and Commercialization (TADAC) program was established as a joint partnership between KTEC and the Mid-America Commercialization Corporation (MACC) to encourage companies to donate patent portfolios for research and commercialization of new technologies at Kansas universities.

History and Chronology

2001	The Enterprise Center of Johnson County (ECJC), which affiliated with KTEC in 1998, was awarded a federal Small Business Administration grant to establish the first Women's Business Center in Kansas.
	The Legislative Division of Post Audit completed a review of the three state economic development agencies. The audit concluded that KTEC is fulfilling its main statutory role and that KTEC and network affiliates have appropriate accountability measures in place for investments.
2002	After Rich Bendis was recruited to lead Innovation Philadelphia, former KTEC board chairman Tracy Taylor was selected as the organization's third president.
	KTEC sponsored the first-ever Kansas High School Business Plan Competition.
	The Kansas Polymer Research Center (KPRC), a KTEC Center of Excellence at Pittsburg State University, received its second patent, issued for a new process useful for coating applications that uses soybeans rather than petroleum products.
	ITTC received an \$8.7 million National Science Foundation (NSF) award to use information technology to help determine why sea levels have been rising for the past century.
	Xiuzhi Susan Sun, a researcher at AMI, received a \$5 million grant from the Department of Energy to advance the use of soybeans in creating adhesives.
2003	K-State, KSU Research Foundation, MACC and KTEC created that National Institute for Strategic Technology Acquisition and Commercialization (NISTAC). Building on TADAC, NISTAC allowed corporations to donate patent portfolios and receive a charitable tax deduction. Some \$500 million of patents were donated prior to Congress closing this corporate tax loophole in 2004.
	KTEC established KansasBio, the non-profit trade association for bioscience companies and research institutions in the state of Kansas.
2004	KTEC led the development of the Kansas Economic Growth Act (KEGA), landmark legislation that created the Kansas Bioscience Authority and the Kansas Center for Entrepreneurship (dba Network Kansas). A novel funding mechanism, tied to growth in the bioscience industry, is expected to generate \$500 million of resources available for economic stimulus in the biosciences over 15 years.
	Also included in the KEGA legislation was the Angel Investor Tax Credit. This program, for which KTEC was designated as administrator, allows accredited investors a 50% state income tax credit for qualified investments in Kansas businesses. Up to \$2 million of tax credits can be awarded each year for ten years. In 2005, this legislation was amended to allow KTEC to allocate these limited resources to investments in companies assessed by KTEC to offer the greatest potential for economic benefits to the state.
	As part of a national group of investors working to enhance oil recovery, KTEC worked with stakeholders based near Russell, Kansas to kick off the first carbon dioxide flood in Kansas. Back in 1998, KTEC provided \$50,000 of research funding to help assess the technological feasibility of this method for increasing the recoverability of oil reserves in previously depleted areas.
	KTEC served as lead investor with a \$500,000 investment in Kozoru, a startup company developing an advanced search engine technology. Experienced angel investors invested \$3 million for a 6:1 match of KTEC's investment.

History and Chronology

2005	<p>KTEC facilitated a statewide planning process called the Kansas Bioscience and Innovation Roadmap along with KansasBio, the Kansas Department of Commerce and NISTAC. Six regional summits were hosted throughout the state, followed by the facilitation of six “hot teams” to develop strategic recommendations for research areas where Kansas has shown the precursors for success: 1) advanced materials and medical devices; 2) animal sciences; 3) biomass, biofuels, biomaterials and other environmental applications; 4) drug discovery, drug delivery and pharmacogenomics; 5) health related information technology, bioinformatics and telemedicine; and 6) plant sciences.</p>
	<p>Prior to receiving its first traunch of funding from the state, the Kansas Bioscience Authority relied on KTEC to facilitate its strategic planning process and support its early operations.</p>
2006	<p>KTEC led the successful recruitment of Ventria Bioscience to locate its manufacturing operations in Junction City, Kansas. A leading edge biotechnology company with over 13 years and \$40 million of R&D investment, primarily through angel capital investments from its board members, Ventria has successfully developed a technology to grow human proteins in rice. Its products will initially be marketed in medical foods that help to rehydrate infants suffering from diarrhea, the primary cause of death for more than 2 million infants annually worldwide.</p>
	<p>Supporting an experimental regional collaboration of 12 universities in seven states, KTEC invested working capital and project management services in support of the Big 12 Center for Economic Development, Innovation and Commercialization (Big 12 CEDIC). The presidents and chancellors of Big 12 universities have endorsed the first annual Big 12 Innovation and Capital Formation Conference, to be held March 1, 2007 at the Ewing Marion Kauffman Foundation’s Conference Center and in conjunction with its signature event for 2007, <i>EntrepreneurshipWeek USA</i>.</p>
	<p>KTEC announces development of an entrepreneur development program called the KTEC Pipeline. The program is designed to identify talented and entrepreneurial Kansans, match them with best-in-class training, resources and mentors and encourage them to pursue a career as a technology entrepreneur in Kansas.</p>

History and Chronology

Prior Evaluations of KTEC Operations

In addition to publishing an annual report and appearing regularly before various legislative committees to review our operations and strategies, KTEC has, from time to time and whenever requested, facilitated reviews of its operations by legislative agents and independent parties.

By statute, Kansas Inc. is charged with the responsibility to periodically review the operations of KTEC for effectiveness within the state's comprehensive economic development strategy. In addition, the Legislative Division of Post Audit has performed several substantive reviews of KTEC operations, and KTEC has conducted internal evaluations from time to time to address specific concerns expressed by KTEC board members or other third parties.

Following is a summary of evaluations completed in KTEC's 20-year history:

<u>Year</u>	<u>Evaluator</u>	<u>Impetus</u>	<u>Outcome</u>
1991	National Association of State Development Agencies (NASDA)	Kansas Inc requested and organized an in-depth evaluation of KTEC.	"KTEC offers one of the most comprehensive and sophisticated technology development programs in the country." – NASDA
1998	Institute for Public Policy and Business Research at the Economics Department of the Business School at the University of Kansas	KTEC requested development of a quantitative analysis assess the impact of its operations. The evaluator developed a proprietary "Return on Public Investment" methodology and published the results in <i>KTEC Outcomes, 1989-1995</i>	Report concluded that KTEC generated: at least 5.8 jobs for every job that would have otherwise been created; \$3.00 of income for every dollar that would otherwise been created; \$4.90 of revenue for every dollar of business tax revenue that otherwise would have been created; and 41 patents for every patent that otherwise would have been created.
1998	Legislative Division of Post Audit	Publicly raised concerns about the operations of the Ad Astra Fund and a portfolio company.	Post Audit team found that the Ad Astra management team acted appropriately and in accordance with statutory guidelines and industry standards.
2001	Legislative Division of Post Audit	Routine review of state's three economic development agencies (Kansas Commerce, Kansas Inc. and KTEC)	Post Audit team concluded that KTEC is fulfilling its main statutory role and that appropriate accountability measures are in place for investments.
2001	KTEC staff	Lt. Governor-Elect John Moore requested an internal study assessing the economic impact of KTEC's core operations.	Published <i>KTEC Internal Study: FY1995-FY2002</i>

History and Chronology

<u>Year</u>	<u>Evaluator</u>	<u>Impetus</u>	<u>Outcome</u>
2006	Gilmore & Bell, P.C., an independent law firm	An investigative reporter for a KC arts & entertainment magazine reported that the CEO of a company in which KTEC invested may have falsified resume information.	KTEC retained an independent law firm to evaluate KTEC's investments process. The report recommended no changes to KTEC's processes that impact investment decisions. The report did include recommendations to improve internal documentation.
2006	Legislative Division of Post Audit	A Kansas state legislator on the Kansas Bioscience Authority board requested a review of the legality of KTEC's bonus compensation programs.	In a review of \$550,000 of bonuses paid to KTEC and MAMTC employees from 2004-06, only \$3,000 of bonuses were deemed inappropriate because they related to services performed for a KTEC subsidiary. Nonetheless, KTEC has listened to the Legislators on the KTEC board, removed bonus compensation from the CEO's employment agreement and will explore alternative incentive compensation mechanisms for KTEC staff.

“One of the most critical elements in a technology-based economy is the strength of its research and development institutions...Numerous studies have shown that anchors of fast-growing, technology-oriented economies are major research universities interacting with a robust technology-oriented private sector.”⁸

State Science and Technology Institute
A Resource Guide for Technology-Based Economic Development
August 2006

KTEC was founded as an organization that would serve as a value-adding intermediary between private sector and university research, using state resources as a catalyst for collaboration and requiring an emphasis on commercialization.

There are four strategies commonly and often effectively deployed by state-sponsored organizations:

- 1) University-industry research centers;
- 2) University technology commercialization programs.
- 3) Eminent scholars programs; and
- 4) Industry-university research grants.

Throughout its 20 years of service to Kansas, KTEC has positioned Kansas as an early adopter and sometimes pioneer of economic development strategies that leverage our leading research institutions – the Kansas Regents Universities – as economic drivers.

University-Industry Research Centers and University Technology Commercialization Programs

The first operational priority for KTEC in 1987-88 was developing a strategy for facilitating state-sponsored collaborative research. This led to the adoption of KTEC’s first publication, “*Qualification and Evaluation Criteria for Centers of Excellence*,” which established the guidelines for center designation, evaluation and funding.

Three pre-existing university-hosted research institutes with operations supported by KTEC’s predecessor organization, the Kansas Advanced Technology Commission, were designated as centers of excellence.

- The University of Kansas’ Center for BioAnalytical Research (CBAR), which was subsequently reorganized as the Higuchi Biosciences Center (HBC) in 1988. In fiscal year 1989, HBC leveraged KTEC’s core funding of \$382,000 with \$2.9 million of sponsored research projects from private industry and \$4.5 million from federal funding. That year, HBC launched a commercialization company called Oread Laboratories.
- Kansas State’s Center for Research in Computer-Controlled Automation was established in 1984 and renamed the Advanced Manufacturing Institute (AMI)

Positioning Kansas Regents Universities as Drivers

in 1991. AMI provides professional technical support to early stage technology companies where manufacturing is a critical competency.

- Wichita State's Institute for Aviation Research (renamed the National Institute for Aviation Research, or NIAR, in 1990) was founded in 1985 to serve the advanced technology research and development needs of the aviation industry. From very modest beginnings, NIAR has grown to a \$36 million operation with nearly half its resources derived from federal grants and another 20% from sponsored research.⁹

In addition to the above three KTEC centers of excellence that remain active after 20 years, two others were formed shortly after KTEC's inception and remain active today:

- In 1988, the Center for Technology Transfer was founded at Pittsburg State University. This center of excellence was reorganized in 1994 as the Center for Design, Development and Production. In 1999, it became known as the Kansas Polymer Research Center to reflect the primary focus of its research and commercialization endeavors.
- In 1989, the Center of Excellence in Computer-Aided Engineering was founded at the University of Kansas. In 1997, it was merged with the Telecommunications and Information Sciences Laboratory at KU to form the Information and Telecommunications Technology Center (ITTC).

Impact of University-Industry Research Centers and University Technology Commercialization Programs

The primary value proposition for the state of Kansas is *leverage* – the structured and state-sponsored sharing of resources between universities and private sector companies in such a manner that research and commercialization activities are substantially greater than they would be without the state stimulus. Though often difficult to measure beyond anecdotal evidence, there are many compelling stories about how a KTEC Center of Excellence utilized its KTEC funding, or leveraged the KTEC network, to deliver results with positive economic implications for Kansas. *But for KTEC*, would similar outcomes have been reached?

Oread Laboratories – The Rise, Fall and ROI of a Commercialization Star

Under the leadership of eminent scholar Takeru Higuchi, the Center for BioAnalytical Research (CBAR, later renamed as the Higuchi Biosciences Center following Dr. Higuchi's passing in 1987) became world-renowned for scientific research and commercialization activity in the field of drug delivery.

The relationship between HBC and Oread Laboratories "was considered a model partnership between university research and industry applications."¹⁰ Oread Laboratories received \$5 million of venture capital investment in 1987, a successful leveraging of the state's five-year \$1.2 million investment in the CBAR-Oread partnership.

In 1994, Oread Laboratories employed 80 professionals doing contract research for pharmaceutical companies when it was purchased by David Kimbrell, an entrepreneur who reorganized the operations as Oread, Inc. Kimbrell then launched an acquisition strategy and grew the company to \$83 million of revenue and more than 800 employees, including around 300 in Lawrence. By this time, the state and university's role in Oread's development had been fully transferred to the private sector.

Unfortunately, the risks of the rapid-growth strategy proved too much to navigate, and Oread filed for bankruptcy in 2001. Listed among Oread creditors, which in aggregate were owed more than \$48 million, was the Douglas County Treasurer – owed approximately \$662,000 of property taxes. This fact prompted at least one legislator to label KTEC's \$160,000 of matching grants invested in Oread research as a bad investment.¹¹

Was it? Not at all, if one considers all of the ways in which state investments yield economic development returns. For seven years, the state benefited from payroll taxes, construction activities and property taxes. Based on conservative estimates, Oread at its apex would have generated more than \$500,000 of state personal income taxes *annually*.¹² From its bankruptcy, KU acquired 55,000 square feet of former Oread laboratory and office space for half of its appraised value and one-third of the estimated cost to build a new facility of equal size.¹³

A large part of the value proposition of investing state resources in homegrown early stage technology companies derives from the fact that returns for the state can be realized even when investors ultimately lose. We may never know whether Oread's failure resulted from poor management decisions, fierce competition, other market forces or some combination of them all. The vast majority of early stage technology companies will ultimately fail, but state-sponsored organizations long ago realized that the returns on homegrown successes – even temporary ones – are substantial and worth investing the resources necessary to develop them.

Eminent Scholars Programs

“The recruitment of one researcher in North Carolina demonstrates the potential impact of this approach. Wake Forest University recruited a researcher and his 20 person research team from Harvard to build both human organs and related companies in Winston-Salem. During his first year at Wake Forest, he tripled the size of his research team, attracted two companies from the Northeast to Winston-Salem, and filed 15 patent applications.”¹⁴

State Science and Technology Institute
A Resource Guide for Technology-Based Economic Development
August 2006

An increasingly common method for states to build a research base is to provide economic support for universities to attract world-class faculty. Eminent Scholars programs typically provide funding for endowed chairs, the income from which provides compensation and resources for the star researcher. Two basic strategies are frequently employed, often in tandem:

1. Recruit well-established scientists along with their research teams and multi-million dollar sponsored research programs, and
2. Groom highly talented junior faculty and retain those who develop into world-class scientists.

The strategy to groom and retain junior faculty, often referred to as “rising stars,” requires a much longer time period before returns on investment are realized. The former strategy requires a higher upfront investment and often attracts star scientists near the end of their most productive years, but results can be immediate and substantial.¹⁵

In 2003, KTEC’s research in support of the Kansas Economic Growth Act (KEGA) legislation led to a visit to the Georgia Research Alliance, a collaboration between the state and its research universities that has created more than 50 Eminent Scholar positions, each with a \$1.5 million endowment funded jointly by the state and the university.¹⁶

The success of this model led KTEC to make the recruitment and retention of 25 eminent scholars and 35 rising star scholars an essential selling point of the KEGA strategy to the Kansas Legislature.¹⁷ This landmark legislation passed overwhelmingly (119-6 in the House¹⁸ and 37-3 in the Senate¹⁹), and following KTEC’s nomination, Representative Kenny Wilk won an award for State Legislator of the Year from the national BIO organization in recognition of his role in shepherding KEGA through the legislative process.

Impact of Eminent Scholars Program in KEGA

We understand that the organization’s recently appointed CEO, Tom Thornton, will prioritize development of an Eminent Scholars program consistent with the vision shared with Kansas lawmakers prior to their giving overwhelming support for the passage of the KEGA legislation.

Profile of an Eminent Scholar in Kansas*

In 1966, Takeru Higuchi was 48 years old and at the top of his profession. While a member of the research faculty at the University of Wisconsin, Dr. Higuchi's academic accomplishments and collaborations with industry afforded him international recognition as a pioneer in the field of "physical pharmacy."

With plans to develop a Pharmacy School of national stature, the University of Kansas recruited Dr. Higuchi like no basketball coach before or since.

In addition to naming him a Regents Professor, the highest professorial position at KU, the University also offered Higuchi considerable authority to develop a nationally recognized program in pharmaceutical chemistry, and dangled the promise of new buildings that would facilitate his research and help him draw graduate students. In fact even before Higuchi had made the move to Kansas, KU had initiated plans had to build a Pharmaceutical Chemistry Laboratory Building on West Campus, now known as McCollum Laboratory. Three other buildings that would form a "pharmacy-chemistry complex" would be erected over the next decade.²⁰

Were there returns on this substantial investment? Yes – immeasurably so.

Having already apprenticed an estimated 100 graduate students at Wisconsin, Dr. Higuchi groomed another 100 or so at KU, leading one colleague to proclaim that nobody had trained more pharmaceutical industry executives or pharmacy school deans than Dr. Higuchi.

As a scientist and a businessman, Dr. Higuchi focused his research on "drug delivery," the manner by which pharmaceuticals are designed to release the maximum benefits with the least side effects.

(Dr. Higuchi) designed a pill that works as a "chemical pump" and uses osmosis to regulate the discharge of the medicine rather than releasing it all at once. Such a pill could limit unwanted side effects. Similarly Higuchi developed an anti-glaucoma agent that "put a chemical wrapper" around a drug molecule, enabling the medicine to penetrate the eye membrane much more efficiently than it otherwise could, and in so doing, making the drug "10,000 percent more effective." All told, Higuchi published more than 300 articles about his research and acquired more than 50 patents

When a California entrepreneur sought to recruit Dr. Higuchi for a startup drug research company, Dr. Higuchi agreed to join the team but refused to leave Kansas. As a result, the entrepreneur, Alejandro Zaffaroni, agreed to finance the construction of a building in Lawrence to house Dr. Higuchi's research team. Dr. Higuchi also negotiated terms by which the KU Endowment Association received 10,000 shares of stock in Zaffaroni's company, an interest that, following a reorganization and subsequent merger, ultimately netted the Endowment Association an estimated \$3 million in profit.

Following his death in 1987, the Kansas House of Representatives passed a resolution declaring, "Over the past 20 years, it is doubtful if anyone has contributed more than Dr. Takeru Higuchi did to heighten the international respect for and prestige of The University of Kansas."

* Summarized from "It's All in the Delivery" by Mark D. Hersey, www.kuhistory.com

Positioning Kansas Regents Universities as Drivers

“One way to grow a technology-based economy is to build sustained relationships between a state or region’s technology companies and its research institutions... A means of fostering greater university and industry interaction is to provide matching grants for research partnerships. Such programs help build relationships between academic researchers and companies and provide support for activities that help to move technology to the point at which private investment capital can be obtained.”²¹

State Science and Technology Institute
A Resource Guide for Technology-Based Economic Development
August 2006

Industry-University Matching Grants

Also through its role in developing the KEGA legislation, KTEC promoted creation of the Bioscience Research and Development Voucher Program to facilitate collaborative research between small- and medium-sized bioscience businesses and Kansas’ leading university research institutions. Under this program, the Kansas Bioscience Authority may award research vouchers to private sector companies with the following conditions:

- At least 51% of voucher award funds shall be expended with the university in the state under contract and shall not exceed 50% of the research cost;
- The maximum voucher funds awarded shall not exceed \$1 million, each year for two years, equal to a maximum of \$2 million; not to exceed 50% of research cost; and
- The qualified company shall match the project award by a one-to-one dollar ratio for each year of the project.²²

The first award made by the Bioscience Authority under this program was to offer a \$150,000 research voucher to Prescription Solutions for pharmaceutical or robotics research at a Kansas university. Primarily on account of Overland Park tax abatements of \$3.2 million over 10 years, Prescription Solutions located a mail-order pharmacy distribution center in Kansas with 850 employees, including 270 pharmacists, and the capacity to expand to 1,900 employees by mid-2007.²³

Impact of Industry-University Matching Grants via KEGA

The Bioscience Authority also used \$500,000 of research vouchers with the University of Kansas as part of a \$2.5 million incentive package to recruit the U.S. operations of OncImmune to Kansas. The British company has developed a blood test with the potential to detect breast cancer far earlier than can be detected through physical manifestations. KTEC participated in the OncImmune recruitment and will provide funding for a research grant writer for two years. OncImmune will employ 120 people in a 14,000 sq. foot research facility in Lenexa, and its project will support 20 researchers at KU.²⁴

“A recent study commissioned by the U.S. Small Business Administration contends innovation without entrepreneurship generally yields minimal local impact. On the other hand, ‘entrepreneurship enhances the regional economic impact of investments in innovation.’ ... To tap the benefits of entrepreneurship, states and regions have begun to examine their local entrepreneurial environments to *identify the gaps* in information, services and resources that hinder vigorous entrepreneurial activity.”²⁵

State Science and Technology Institute
A Resource Guide for Technology-Based Economic Development
August 2006

Commercialization Corporations and Business Assistance Services

In 1993, KTEC identified a “missing link” in the technology commercialization value chain between the research and development phase and the point where a company seeks seed capital for early operations. In response, KTEC developed a plan to formalize the delivery of business assistance processes in regional “commercialization corporations.” Initially, three corporations were established in Wichita, Manhattan and Lawrence in 1995.

This strategy eventually incorporated existing KTEC business assistance affiliates into a true statewide network. KTEC operated two “industrial liaison” regional offices in Lenexa and Great Bend – Tech-Industry Consultants, Inc., and Western Kansas Technology Corporation, respectively, which were launched in 1990. The following year, the state of Kansas was awarded a six-year, \$12.9 million grant from the National Institute of Standards and Technology (NIST) to develop the Mid-America Manufacturing Technology Center (MAMTC).²⁶ These organizations were already developing a portfolio of business assistance services to primarily manufacturing clients throughout the state. The addition of the commercialization corporations in the communities supporting the three research universities in Kansas ensured that university innovations had a natural link into a KTEC-supported business assistance network.

In addition to MAMTC, today’s KTEC business incubators are as follows:

- Alliance for Technology Commercialization (ATC), Pittsburg
- Enterprise Center of Johnson County (ECJC), Lenexa
- Lawrence Regional Technology Center (LRTC), Lawrence
- National Institute for Strategic Technology Acquisition and Commercialization (NISTAC), Manhattan
- Quest Business Center for Entrepreneurs, Hutchinson
- University of Kansas Medical Center Research Institute, Kansas City
- Western Kansas Technology Corporation (WKTC), Great Bend
- Wichita Technology Corporation (WTC), Wichita

New company gets helping hand*

by Dan Flynn, President and CEO, and Peter Petillo, Chief Science Officer, of Deciphera Pharmaceuticals

Imagine trying to establish a new start-up pharmaceutical company anywhere in the United States over the past 12 months. We have many friends and colleagues who have bemoaned the national economic downturn in the biotechnology sector during 2002-03. Their efforts to start or grow new companies on either the East or West Coast have been met largely with disappointment and the inability to raise sufficient working capital.

We were counseled not to expect much when we decided to establish Deciphera Pharmaceuticals in Cambridge, Mass., in August 2002. Now it is one year later. Deciphera Pharmaceuticals has met its initial goals in establishing its drug discovery platform. It has found a research home, completed renovation of a research facility, filed key patents, raised a total of \$16.5 million in working capital, and made its first critical hires. And not in Boston, San Diego, or San Francisco.

We did it all in Kansas. This accomplishment took an enormous amount of hard work by very determined, dedicated Kansans. A group of men from Lawrence Regional Technology Center (LRTC), Sam Campbell & Associates of Lawrence, Dec Investors LLC of Lawrence, Kansas Technology Enterprise Corporation (KTEC) and the Precede Fund of Kansas City, Kan., made this dream possible. All of these organizations represent Kansas institutions that patiently and deliberately worked with each other and with Deciphera Pharmaceuticals over the past year.

Starting with an inaugural work session on Aug. 17, 2002, this group provided local investment dollars and a research site at West Lawrence Research Laboratories facility in Lawrence. **KTEC laid the groundwork for the infusion of \$100,000 in December 2002, and a second \$100,000 in July 2003.** The Precede Fund from Kansas University Medical Center contributed \$50,000 of working capital. A group of Lawrence investors banded together to form Dec Investors, LLC. By July 2003, this dedicated group collectively brought in \$600,000 of seed capital.

All of this effort by KTEC, LRTC, and Dec Investors enabled Deciphera Pharmaceuticals to not only locate in Lawrence but to succeed in Lawrence.

Heading into our second year, we have completed major research initiatives in founding our drug discovery platform and have leveraged this success to land an additional \$15 million in funding over the next four years.

A very sincere thank you is extended to these dedicated Kansas institutions. Your words of support have been matched with your resolve and dedication. Deciphera Pharmaceuticals is proud to be in Lawrence and to be a part of the greater Kansas City-Lawrence Life Sciences Initiative.

*** Published by the Lawrence Journal-World, December 20, 2003**

Kansas Center for Entrepreneurship

One of the distinct elements of the KEGA legislation was the creation of the Kansas Center for Entrepreneurship, which was established with a purpose “*to enhance the quality of life for citizens of this state by providing increased availability of an accessibility to capital, particularly at the seed capital investment stage, encouraging wealth creation through new jobs that increase the wage base promoting new business development and encouraging individuals to invest in the Kansas community entrepreneurship fund and to assist regional and community organizations in providing seed funding for entrepreneurs.*”²⁷ KTEC’s CEO, Tracy Taylor, serves on the Center for Entrepreneurship’s board of directors.

In 2006, the Center for Entrepreneurship launched *Network Kansas* as a “central portal that connects entrepreneurs and small business owners with the right resource; expertise, education, and/or economic, at the right time.” Under the leadership of Director **Steve Radley**, *Network Kansas* is developing a methodology for classifying the entrepreneurship support services available to Kansans and making them more easily accessible by connecting through his organization. KTEC is working with *Network Kansas* to ensure that technology entrepreneurs can efficiently locate KTEC research centers and business assistance services that can best serve their needs.

KTEC Pipeline Technology Fellowship Program

In 2006, KTEC laid the groundwork for the 2007 launch of the KTEC Pipeline. Through this program, Kansas is the only state working to systematically identify its top technology entrepreneurs and match them with best-in-class training, resources and mentors, all for the purpose of encouraging them to establish and grow their technology ventures in Kansas.

The PIPELINE – which stands for Promoting Innovation, Providing Education and Leadership, Investing in New Entrepreneurs – will also engage experienced Kansas mentors and resources from around the state – raising the awareness of Kansas resources and opportunities for all technology entrepreneurs.

People are the key success driver in technology businesses; therefore, KTEC is committed to investing in the development of people with the potential to lead technology businesses into a more prosperous future. We know from experience that Kansas has an abundance of undeveloped talent with interests in technology and business, and we also know that we have entrepreneurial business leaders willing to invest their time and experience into mentoring tomorrow’s great business leaders. What KTEC aims to accomplish with this program is to create a forum where the best talent in Kansas is developed and mentored by established technology business leaders.

We fully expect that within five years, the KTEC PIPELINE will boast alumni leading fast-growing technology businesses in Kansas. We will measure the success of this program by the careers of the people who benefit from it – not just the entrepreneurs themselves, but also the mentors inspired by their energy and Kansans employed from their creative outputs.

Advisor to the Entrepreneurial Development Community

KTEC professionals possess a wealth of expertise not only in technology business development, but in the ability to advise communities on developing strategies to effect technology-based economic development.

In addition to the daily work of specialists in the network of innovation centers and Centers of Excellence, KTEC's core management team serves in an advisory capacity on numerous local and industry boards, committees and task forces charged with enhancing the climate for technology entrepreneurship. Such initiatives are often designed to catalyze the public-private-academic sectors, improve university-business interaction, evaluate specific business opportunities, and provide linkages to specialized private sector resources.

The team assists communities in business attraction, accessing venture capital and scientific/engineering resources, and well as evaluating prospective business opportunities. The team also provides a wealth of assistance to entrepreneurs, including those who may not necessarily need KTEC's financing and technical programs, in areas such as business planning, strategic market development, and exposure to experienced company leaders.

While the advisory role played by the management team does not fit within any of the official programs per se, it is an important role of KTEC in fulfilling its charge of enhancing the environment for technology-based economic development.

Increasing Access to Capital

“Access to capital is a critical component to building strong local and regional innovation economies. In order for new technology enterprises to take root and grow locally, sufficient funding at every level, from angel investment to institutional venture capital, must be available and accessible. Among practitioners interviewed, there was nearly universal agreement that gaining access to capital for fledgling technology companies in their regions often presents significant challenge.”²⁸

State Science and Technology Institute
A Resource Guide for Technology-Based Economic Development
 August 2006

Applied Research Matching Grants and Seed Capital Fund

To apply for a matching grant or seed stage investment, a private sector company must convince the KTEC Investments committee of the merits of the applied project, provide a private sector match of at least 150%, and gain final approval of the KTEC board.

In 1992, KTEC began taking royalty positions in companies receiving applied research matching fund grants. In 2003, KTEC began taking equity positions to reflect that its investments benefit the company as a whole rather than merely a product line.

Following are the total investment activities as reported annually by KTEC:

Year	Number	Amount	Industry match	Total investment	Leverage
1988	18	\$ 825,626	\$ 1,659,318	\$ 2,484,962	2.0
1989	21	486,922	893,387	1,380,330	1.8
1990	33	1,335,302	2,481,613	3,816,948	1.9
1991	52	1,524,980	2,645,260	4,170,292	1.7
1992	41	1,349,684	2,734,113	4,083,838	2.0
1993	32	1,125,317	1,942,162	3,067,511	1.7
1994	29	1,233,364	2,202,499	3,435,892	1.8
1995	35	1,259,613	2,063,306	3,322,954	1.6
1996	24	1,095,292	2,154,269	3,249,585	2.0
1997	26	1,094,403	1,843,481	2,937,910	1.7
1998	27	1,175,486	2,256,134	3,431,647	1.9
1999	28	1,378,519	2,439,815	3,818,362	1.8
2000	20	1,223,896	2,220,282	3,444,198	1.8
2001	21	1,414,225	2,866,429	4,280,675	2.0
2002	12	748,016	1,175,706	1,923,734	1.6
2003	13	1,125,085	2,232,493	3,357,591	2.0
2004	11	1,436,264	8,937,700	10,373,975	6.2
2005	10	1,014,951	2,710,000	3,724,961	2.7
2006	9	1,626,666	33,276,055	34,902,730	20.5
Totals	462	\$ 22,473,611	\$ 78,734,022	\$ 101,208,095	3.5

Does Government Have a Role?²⁹

“The question of whether it is appropriate for government to assume a role in providing...capital for startups is ongoing. Some see it as unnecessary intervention in the marketplace, arguing that if the deals are good, the money will find them, and that government is simply unsuited to the requirements of business investing, lacking the skills, speed and political will to make correct investment choices.

“However, **the fact that there are problems in the supply of capital indicates that the market alone is operating inefficiently and as a result may need government action:** either by providing incentives to encourage market action or by stepping into the market and offering capital to companies.

“Additionally, government may have a role in identifying companies with high economic development potential that have been neglected by the investment community. In some cases, it is reasonable to assume that government would be more likely to act than private financiers.

“Government can supplement the information and resources of the financial community by pre-screening deals, helping identify qualified management, and providing funds to help companies get to the point that they are attractive to private investors, thereby accelerating and increasing the number of deals that can be done...

“In summary, the underlying premise upon which technology-based economic developers conduct their work is that, to correct geographically-localized inefficiencies in the market, it is sometimes necessary for government to catalyze action and address market gaps.”

State Science and Technology Institute
A Resource Guide for Technology-Based Economic Development
August 2006

KTEC Investments Process

KTEC employs a rigorous process for making investments in early stage technology companies. First, companies must complete an application and submit a business plan to the KTEC investments team, which determines if applicants meet the following criteria:

- Innovative, patented technology;
- Potential to generate a monetary return on investment;
- Potential to create high-paying jobs in Kansas;
- Conduct principal business in Kansas;
- Strong management team with the vision to utilize business or technical assistance when needed (preference is given to companies using KTEC's Incubators for business assistance); and
- Ability to raise an amount equal to or greater than 150% of KTEC's investment from other sources.

The KTEC investments committee includes ten private sector Kansans with exceptional financial, technology, legal and/or business experience. At least three of the committee members are also KTEC board members. The KTEC investments team reviews applications and business plans before recommending to the KTEC investments committee which companies have met the minimum criteria and should be allowed to make a presentation before the committee.

Following the presentations that are made at quarterly meetings, the KTEC investments committee reviews due diligence reports from the KTEC investments staff and votes on recommendations to be made to the KTEC board of directors. Funds are disbursed only after the full KTEC board votes in favor of an investment, matching funds are raised, due diligence requirements are satisfied and investment agreements are signed.

KTEC staffs its investments team with capable professionals recruited from the private sector. The following professionals are representative of the private sector talent that has led KTEC investments processes for 20 years:

- **Sam Campbell** – A principal of Campbell-Becker, the Lawrence-based firm that managed KTEC's Ad Astra Fund from 1988-1998, Campbell has remained active with KTEC's Lawrence Regional Technology Center and led a group of private investors to partner with KTEC and LRTC in an early stage investment in Deciphera, which subsequently raised \$15 million of private equity.
- **Mike Peck** – KTEC's VP of Investments from 2002-2005 was recruited by Open Prairie Ventures as a General Partner in charge of opening an Overland Park office.
- **Michele Weigand** – Formerly a VP of Business Development at GE Mortgage Insurance, Weigand led investments into internet opportunities, including Lending Tree.com. She has led KTEC's investments team since October 2005.

Increasing Access to Capital

On no less than three occasions in its 20-year history, persistent concerns have been raised about the appropriateness of using state funds to invest in early stage technology companies, whether by grant or by equity investment. In each case, subsequent investigations satisfied objective observers and resulted in continued support for KTEC and its programs:

- In 1998, when a company in which the Ad Astra Fund had invested was criticized for hiring state legislators as part of its management team, both a special committee of the KTEC board of directors and the Legislative Division of Post Audit conducted independent reviews of the operations and policies of the Ad Astra Fund managers. Collectively, these reviews concluded that the fund managers had acted appropriately and in compliance with statutory and industry guidelines with all Ad Astra investments, and that the fund managers had done a prudent job in adhering to legislative intent in following investment criteria, guidelines and due diligence.³⁰
- Following the 2001 bankruptcy of Oread, Inc., an individual state legislator questioned whether KTEC officials had made poor decisions in awarding six grants to Oread Laboratories totaling \$160,829 from 1988 to 1992. KTEC's CEO, Rich Bendis, responded by pointing out that the state of Kansas received substantial returns on its investment via payroll taxes and construction activities supported by Oread's operations over 13 years.³¹
- Following a 2006 investigative story by a Kansas City arts and entertainment magazine raised questions about whether an applicant had supplied accurate personal information prior to a KTEC investment in his company, Kozoru. Concerns were amplified when the company changed its strategy after failing to capture the market it had anticipated. KTEC's CEO, Tracy Taylor, responded to concerns by hiring an independent law firm to investigate the processes by which KTEC makes investments. As a result of this review, no process recommendations were made other than to improve certain documentation of due diligence investigations.³²

Impact of Applied Research Matching Fund Grants and Seed Capital Investments

On a purely financial returns basis, KTEC historically has fared not much better than many other venture capital funds that have struggled to survive in the region in and surrounding Kansas. There have been some successes, but no Google or Dell Computer in the portfolio.

However, as a state-sponsored corporation, KTEC appropriately views its investment criteria far differently. KTEC views returns on its investments holistically, to include tangible (though not measured) factors, such as state and local tax revenues, to intangible factors such as the value of fostering an entrepreneurial culture in the state. The following story of Medi-Flex demonstrates why we are committed to investing in early-stage technology companies and why the true impact sometimes eludes our measurement processes.

Deferred ROI – the Story of Medi-Flex (Enturia as of January, 2007)

In 1995, the KTEC board approved the KTEC investment committee's recommendation to award an Applied Research Matching Fund grant of \$98,800 to Medi-Flex Hospital Products, Inc. for the purpose of researching "new applications for **chlorhexidine gluconate** solutions."³³ The company provided matching funds of \$148,200 for a total investment in the applied research project of \$247,000.

Medi-Flex was founded in 1985 by Joseph Brandmeyer, who started the company after leaving Marion Laboratories where he was President of Marion Scientific Division. The company's initial products, spin-offs from Marion, were "a broad range of aseptic skin prepping products for hospitals and alternate care practitioners." The Company supplemented its product lines with acquisitions, such as the purchase of an IV Start Kit from Johnson & Johnson in 1991, but the company found success from its own R&D efforts to be elusive. The investment by KTEC in 1995 came at a critical juncture for Medi-Flex. Although the research took a long time to bear fruit, Medi-Flex received FDA approval for its signature product in July 2000.³⁴

*In November 2000, Medi-Flex launched a revolutionary antiseptic product called ChloraPrep® One-Step. ChloraPrep is the first and only FDA-approved patient preoperative skin prep in the United States with a 2 percent chlorhexidine gluconate and 70 percent isopropyl alcohol formulation. ChloraPrep exhibits rapid and persistent bactericidal activity with a low incidence of skin irritation. It has been proven to significantly reduce the number of bacteria on intact skin which makes it a powerful weapon in the fight to reduce healthcare-associated infections.*³⁵

With the launch of this highly successful product, Medi-Flex grew rapidly into a Kansas-based bioscience company with 400 employees in Lenexa, Kansas and El Paso, Texas. **Sales increased more than 600% to \$100 million by 2006.**³⁶

In 2005, Medi-Flex, Inc. received the Medical Products Award at the Ernst & Young Entrepreneur of the Year reception and awards gala. Brandmeyer, still the company's CEO after 20 years, was unexpectedly thrilled to have KTEC's CEO present the award, and to have the opportunity to share with the audience how important the 1995 KTEC grant was to his company's success.

Based on conservative estimates, the company likely generates, on an annual basis, greater than \$250,000 of state personal income taxes from its Kansas employees. Readers of KTEC's annual report might be surprised to learn, however, that the Medi-Flex results since 2000 have not been included in KTEC's reported ROI calculations. Why? Grant recipients historically were contractually obligated only to report revenues and employment data for five years, and the rapid growth of Medi-Flex operations began *after* the five-year reporting requirement had expired.

Despite missing out on the quantitative feedback, KTEC's investments committee and management team are grateful for an example like Medi-Flex to demonstrate the value proposition of making state-sponsored investments in early stage technology companies. The returns can take nearly a decade to materialize, and most will likely fail. But winning investments can be substantial and pay annuity dividends to state coffers through various state tax revenues.

Angel Investor Networks

Angel investors are affluent individuals (meeting the SEC definition of an “accredited investor” of having a \$1 million net worth or annual income of \$200,000) that invest personal resources in early stage companies and often become personally involved in mentoring entrepreneurs associated with their investments.

Angel investors frequently form groups to share information and costs associated with their investment activities. Since 1996, the number of known angel groups in the U.S. has increased from 10 to more than 200.³⁷ State-sponsored technology-based economic development organizations are increasingly supporting the organization of angel networks to facilitate private sector investments in early stage technology companies.

Three KTEC business assistance incubators actively collaborate with the KTEC Investments team to facilitate investments by accredited investors in early stage technology companies in Kansas.

- The Wichita Technology Corporation supports two angel networks – the *Midwest Venture Alliance* and the *Southeast Kansas Venture Alliance*.
- The Enterprise Center of Johnson County and the Lawrence Regional Technology Center collaborate to support the *Mid-America Angels*.

By supporting these efforts, KTEC and its affiliates collaborate on generating quality deal flow and sharing due diligence responsibilities. Companies awarded seed stage investments from KTEC often receive investments from one or more of these angel networks, and vice versa.

Angel Investor Tax Credits

The KEGA legislation assigned to KTEC responsibility for administering \$2 million of angel investor tax credits per year for 10 years.

The *Kansas Angel Investor Tax Credit Program* is designed to bring together Kansas-based accredited angel investors with Kansas-based, KTEC-certified companies seeking seed and early stage investment. KTEC receives applications from companies and certifies them according to guidelines codified in Kansas Statutes.³⁸ Once certified, companies can solicit investments from angel investors who may then qualify for tax credits on their Kansas personal income taxes.

Impact of Angel Investor Programs

These capital formation programs are examples of professionals in the KTEC network learning about successful programs from other states or regions and working in collaboration – whether with private sector investors to form angel networks or with State Legislators to develop appropriate incentives through legislation – to achieve positive economic benefits for Kansas.

- ¹ Kansas Statutes 74-99b09 (i): Bioscience authority, powers and duties; authority subject to review by Kansas, Inc.
- ² Annual Report for Fiscal Year 1988, inside cover. The Kansas Advanced Technology Commission is noted as KTEC's predecessor.
- ³ *Ibid.*, p.4.
- ⁴ *Ibid.*, p.4.
- ⁵ Kansas Statutes 74-8101(b). Kansas technology enterprise corporation; creation; board of directors, membership, qualifications, terms, compensation and expenses; meetings; transaction of business; corporate president; executive committee, membership, duties.
- ⁶ Kansas Statutes 74-8101(i).
- ⁷ Kansas Statutes 74-8101(f).
- ⁸ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.11.
- ⁹ National Institute for Aviation Research, *2006 Annual Report*, p. 3.
- ¹⁰ Lawrence Journal-World editorials, *A Sad Ending*, February 15, 2001.
- ¹¹ Rothschild, Scott. Lawrence Journal-World, March 1, 2001, *Official Blasts State Investment*.
- ¹² Estimate: 300 employees, \$50,000 avg salary, 3.5% state income tax = \$525,000.
- ¹³ <http://www.hbc.ku.edu/Newsltrs/v10n2/Purchase%20of%20Lab.htm>
- ¹⁴ *Ibid.*
- ¹⁵ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.19.
- ¹⁶ *Ibid.*, p. 20.
- ¹⁷ *Kansas Economic Growth Act: Testimony on House Bill No. 2647*, February 3, 2004, presented by Tracy Taylor and Julie Edge.
- ¹⁸ http://www2.ljworld.com/news/2004/feb/26/house_passes_gop/
- ¹⁹ http://www2.ljworld.com/news/2004/mar/28/senate_gives_its/
- ²⁰ Hersey, Mark D., *It's All in the Delivery*. <http://www.kuhistory.com/proto/story.asp?id=118>
- ²¹ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.21-22.
- ²² Kansas Statutes 74-99b67, (Bioscience Authority R&D Voucher program) Project funding; limitations.
- ²³ Prescription Solutions opens \$47M pharmacy, October 20, 2006
<http://biz.yahoo.com/bizj/061021/1364268.html?.v=3>
- ²⁴ http://www2.ljworld.com/news/2006/nov/08/cancer_research_gets_ku_boost/
- ²⁵ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.31.
- ²⁶ KTEC 1991 Annual Report, p.4.
- ²⁷ Kansas Statutes 74-99c04, Kansas Center for Entrepreneurship, Purpose and Duties.
- ²⁸ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.61.
- ²⁹ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.63.
- ³⁰ 1998 KTEC Annual Report, p. 6.
- ³¹ Rothschild, Scott. Lawrence Journal-World, March 1, 2001, *Official Blasts State Investment*.
- ³² KTEC press release, July 24, 2006, "KTEC Investment Process Evaluation Announced."
- ³³ 1995 KTEC Annual Report, p. 16.
- ³⁴ http://www.medi-flex.com/chloraprep_com/mediflex_history.html
- ³⁵ *Ibid.*
- ³⁶ <http://www.kansascity.com/mld/kansascity/business/16441342.htm>
- ³⁷ State Science and Technology Institute, *A Resource Guide for Technology-based Economic Development*, p.70.
- ³⁸ Kansas Statutes 74-8136. KTEC authorized to issue tax credits; reporting required; annual review by secretary of commerce; loss of designation, notice, repayment obligations.



Presentation to the Senate Commerce Committee February 7, 2007

Tracy B. Taylor

President and CEO

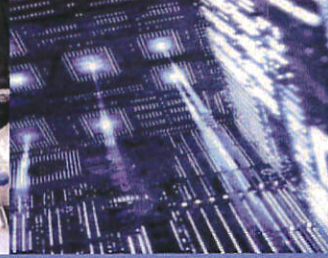
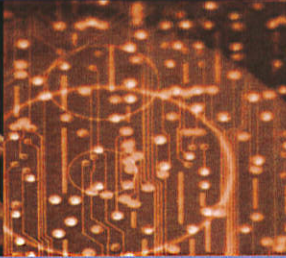
Kansas Technology Enterprise Corporation (KTEC)

*Senate Commerce
Feb. 7, 2007
Attachment 3-1*

Attachment

3-1

Senate Commerce Committee
February 7, 2007

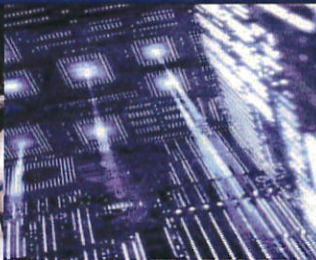
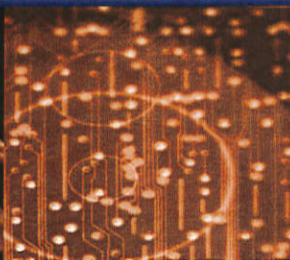


About KTEC

- Created by Legislature in 1986
 - "Redwood-Krider Report" articulated need for entrepreneurship and technology economic development
- Governed by 20-member, industry-led board
 - Includes university, legislature and administration representatives
- Funded by the Economic Development Initiatives Fund,
 - Consists of revenues from the Kansas Lottery & Gaming Commission

3-2

3-2

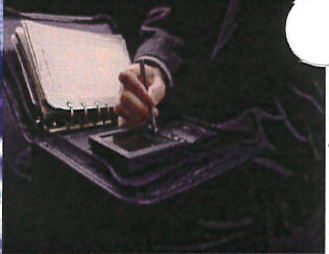
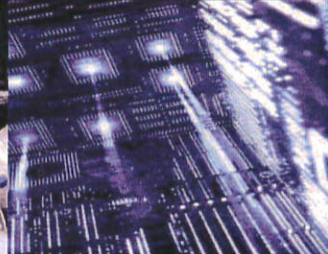
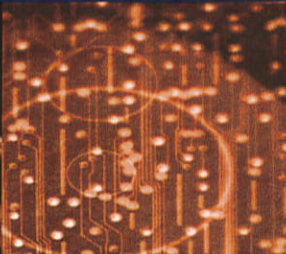


3-3

Technology Entrepreneurship

- Definition of “Technology”
 - *Processes* by which an organization transforms
 - labor,
 - capital,
 - materials, and
 - information
 - into products and services of greater value.
- Small business entrepreneurship – SBDC
- Connecting Entrepreneurship Resources - Network Kansas
- Technology entrepreneurship – KTEC

3-3



3-4

KTEC Areas of Focus

Research

Centers of Excellence

- HBC, *Univ. of Kansas*
- ITTC, *Univ. of Kansas*
- NIAR, *Wichita St. Univ.*
- AMI, *Kansas St. Univ.*
- KPRC, *Pittsburg St. Univ.*

Experimental Program to Stimulate Competitive Research (EPSCoR)

Small Business Innovation Research (SBIR) assistance

Investments

Angel Tax Credits

Creation of Angel Networks

Technology Commercialization Seed Fund (TCSF)

Entrepreneur Development

KTEC PIPELINE

Entrepreneurs -in- Residence Program

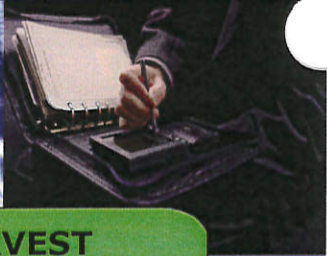
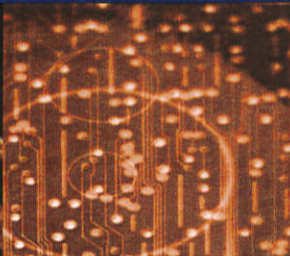
Business Assistance

Incubators

- NISTAC, *Manhattan*
- LRTC, *Lawrence*
- ECJC, *Lenexa*
- KUMCRI, *Kansas City*
- ATC, *Pittsburg*
- WTC, *Wichita*
- WKTC, *Great Bend*
- Quest, *Hutchinson*

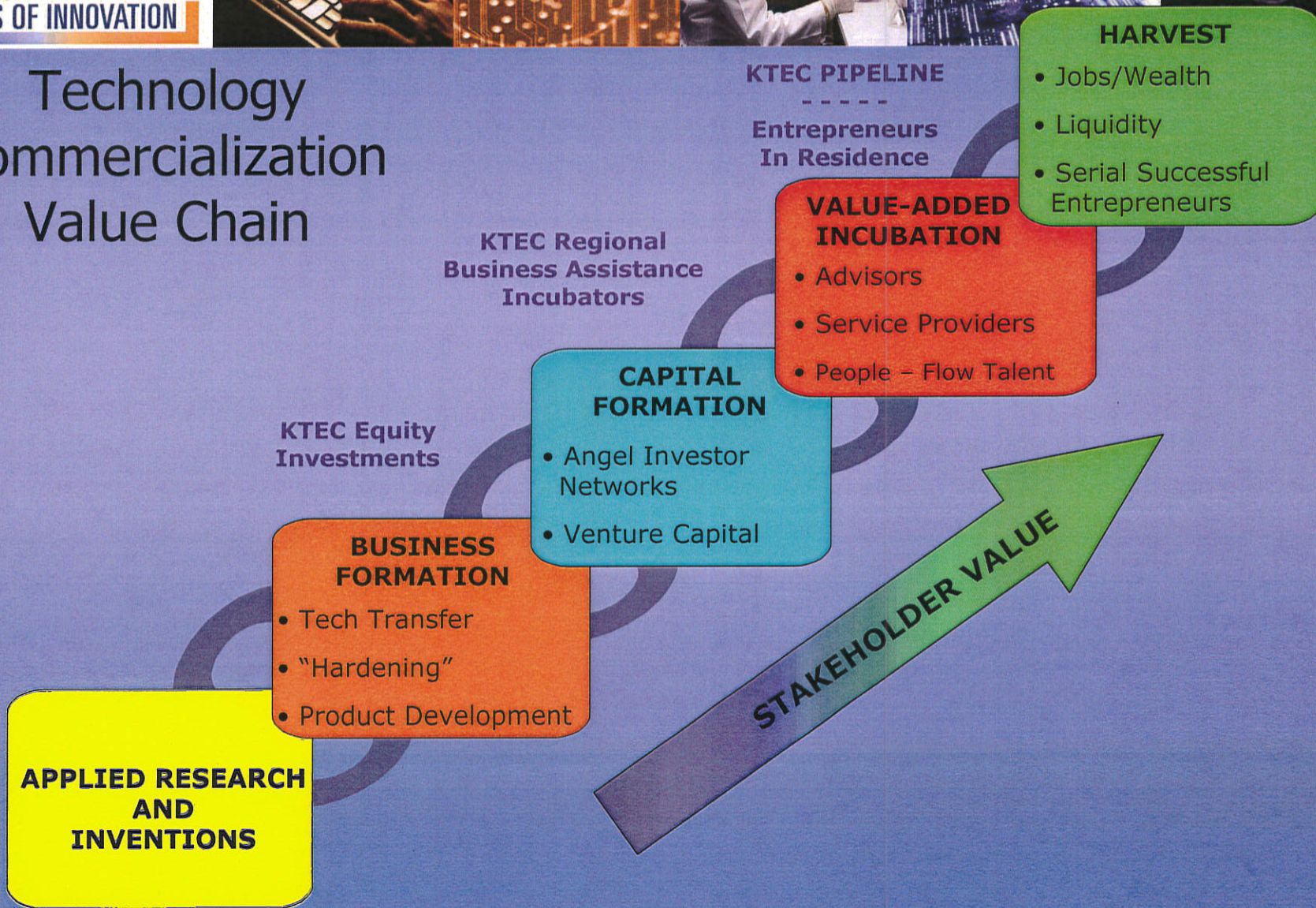
Mid-America Manufacturing Technology Center (MAMTC)

3-4



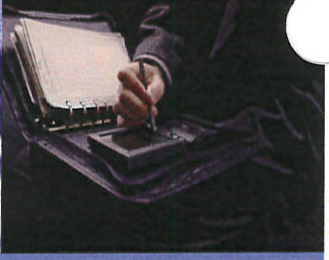
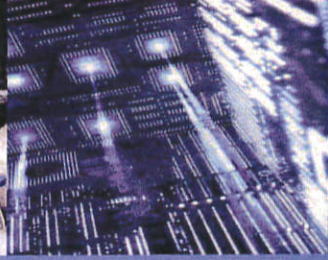
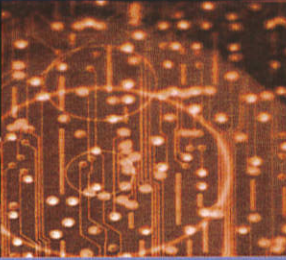
3-5

Technology Commercialization Value Chain



3-5

20
KTEC
YEARS OF INNOVATION



3-6

PIPELINE
KTEC'S ENTREPRENEURIAL FELLOWSHIP

CHARTER CLASS INNOVATORS



3-6



About the KTEC PIPELINE

- The KTEC PIPELINE identifies talented and entrepreneurial Kansans and matches them with best-in-class training, resources and mentors to enhance their success as technology entrepreneurs in Kansas.
- Kansas is the only state today that is systematically identifying their top technology talent and connecting them to become future leaders.
- The KTEC PIPELINE adds to KTEC's comprehensive technology program, ensuring the most important component to any successful economy - cadre of innovators that will lead the Kansas economy for generations to come.

3-7

3-7



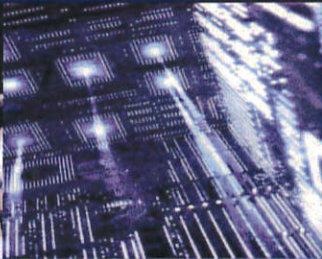
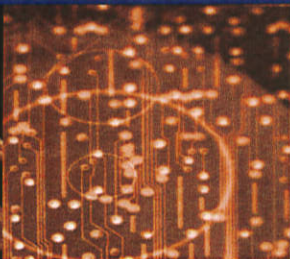
3-8

KTEC PIPELINE Innovators will receive

- Best-in-class training in fundamentals of technology entrepreneurship.
- Three-day formal learning sessions each quarter. Innovators will receive cutting-edge education, skill building and networking.
- Access to mentors from technology businesses in or with strong ties to Kansas.
- One-year stipend for discretionary use while exploring opportunities for a startup technology venture.
- Access to venture capitalists with capabilities of financing early stage technology companies.
- Leverage use of resources to highest potential talent.

3-8

20
KTEC
YEARS OF INNOVATION



3-9

VENTRIA BIOSCIENCE



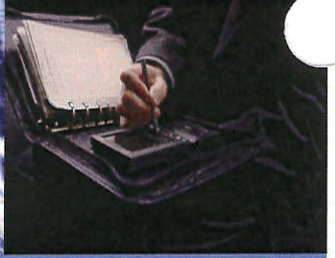
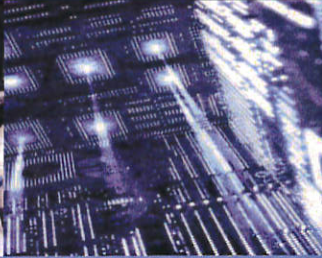
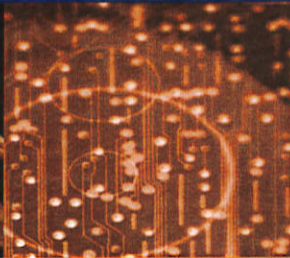
Medi-Flex



LaGarde Inc.



3-8

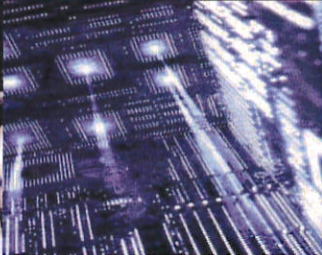
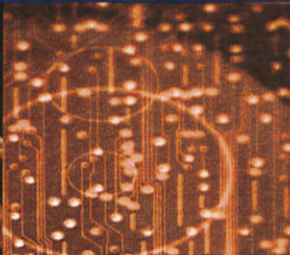


3-10

Why attracting Ventria is so important to Kansas

- 1) Strategically - Ventria is the Leading Plant-made Pharmaceutical Firm in the World and Kansas has the potential to create an industry cluster
- 2) World Class Science/World Class Board and Leadership
- 3) Proven Ability to Commercialize and Raise Capital
- 4) Of Equal Importance - Leader a former Kansan, Many ties to Kansas
- 5) Tremendous Example of Collaboration - KTEC, Dept. of Agriculture, Junction City community, Local Extension Office, and KSU

3-10

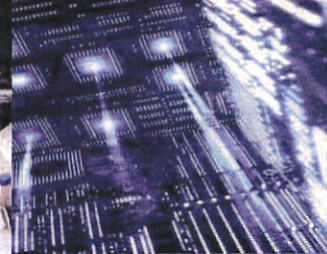


3-11

Principles of KTEC Operation

- People - Flow Talent
 - Import new ideas, export good experiences with Kansas
- Lean Organization
 - Reduction of Staff from 19 to 12 (FY02)
- Process Improvements
 - Continuous, methodical, measurable and sustainable
- KTEC VALUES
 - private sector orientation, collaboration, partnerships, synergies
- Technology Commercialization Value Chain
 - Our responsibility – fill essential gaps and force collaboration

11-3



3-12

KTEC Strategies – Mind to Market

Technology Transfer & Commercialization

- Collective Entrepreneurship
 - Develop an implement systemic approaches
- Strategic Networks
 - Construct and maintain resource networks
- Promote broad engagements
 - Look for opportunities to build partnerships and strategic alliances

3-12

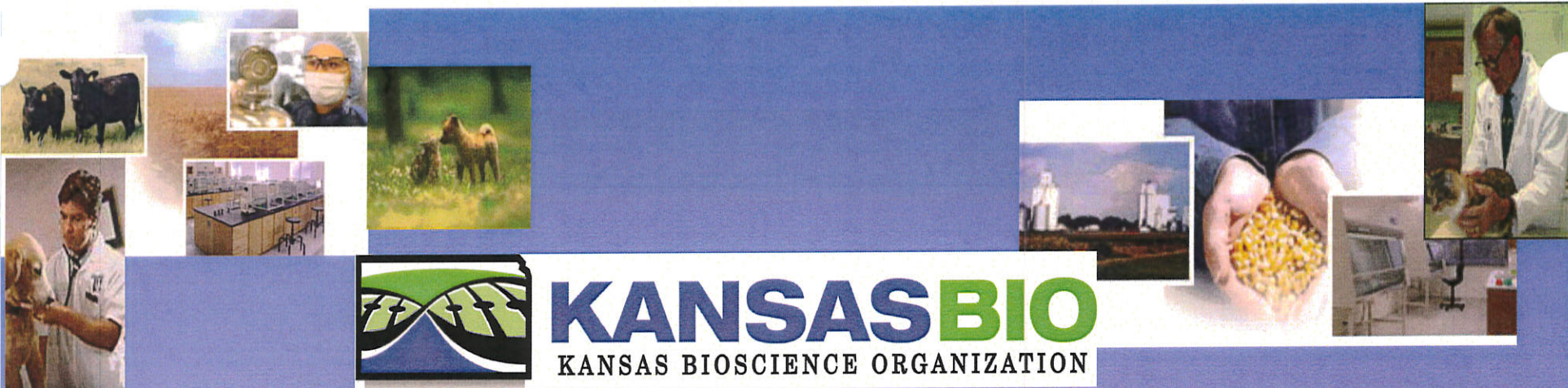


Capital Formation

- Implementation of Tax Credit Legislative Change
- Creation of Angel Networks in South Central, Southeast and Northeast Kansas

3-13

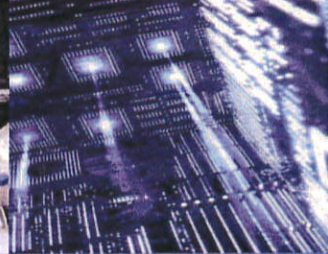
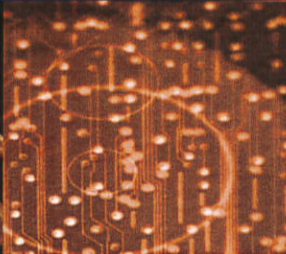
3-13



- Advocate for the bioscience community in Kansas
- Founded in 2004 by KTEC
- Trade organization representing the bioscience industry continuum in Kansas
 - Human, Plant, and Animal
 - Academic, Industry, and Government
 - Entrepreneurial ventures, start-ups, service providers
- Leading Kansas' presence at BIO 2007
- Led Kansas presence BIO 2006 - Chicago

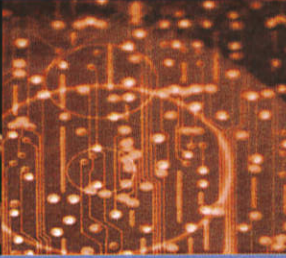
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3-14



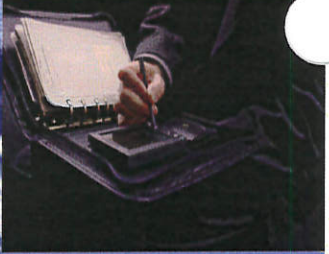
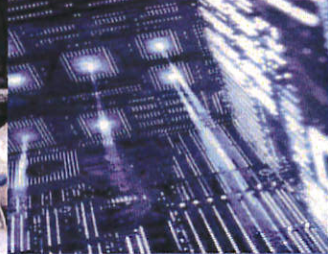
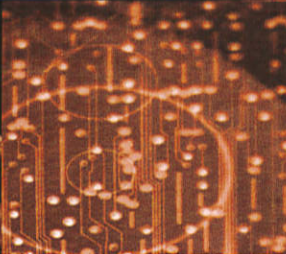
Principles of State-Sponsored Technology-Based Economic Development

- University (academia) sector mission =
 - Research, teaching and service (or extension)
 - Economic development is secondary
- Business (private) sector mission =
 - Shareholder value, principally from profits
 - Economic development is secondary
- Government (public) sector mission =
 - Stimulus for economic development that creates jobs and wealth by private sector, often by leveraging university sector investments



Fallacies of State-Sponsored Technology-Based Economic Development

- Universities should lead all aspects of technology commercialization
 - All of commercialization is not a university's job or responsibility
 - At best, universities should create an environment where technologies are accessible to private sector
 - They should retain some upside, but not negotiate to the brink of scuttling deals
 - Tech transfer offices are generally not viable profit centers
 - Best practice = tech transfer offices as courtesy service to researchers

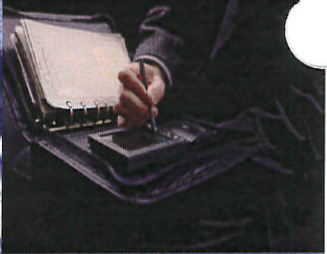
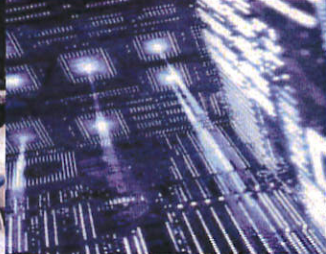
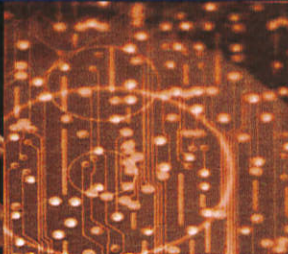


3-17

FY 2006 Results

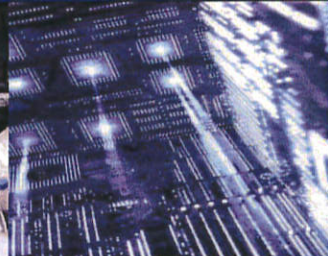
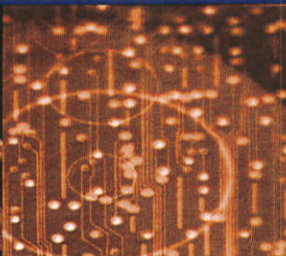
- \$158 million increased sales
- 557 jobs created or retained
- 15 start-up companies
- \$177,000 in royalties received
- Ratio of Non-State to State Funds: \$11:1

3-17



KTEC Cumulative Results

- 416 New Companies Started
- 15,500 Jobs Created or Retained
- \$1.5 billion in increased sales
- \$479.7 million federal invested
- \$366.6 million venture capital invested
- \$155.4 million industry invested
- Leverage Ratio \$4.8:1



For more information about
KTEC visit, www.ktec.com
or call
785-296-5272

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