

Written Testimony of Edward Stevens
Vice President – Healthcare Business
Felton International, Inc., Lenexa, Kansas

Good morning. My name is Ed Stevens and I am an investor and officer of Felton International in Lenexa Kansas. Thank you for giving me the opportunity to testify in favor of Senate Bill 314 this morning.

Felton International manufactures high-workload needle-free injection devices for the animal health and human health markets. Our animal health business supplies injection devices to large pork and cattle producers across the country. These devices improve animal health and food safety by (i) eliminating the risk of broken needles in the food supply, (ii) protecting livestock workers from accidental needlestick injuries, and (iii) reducing disease transmission across animal herds by avoiding repeated needle reuse. Felton International works closely with other animal health companies in the KC Animal Health Corridor, including Seaboard Foods and Intervet. We have about 20 employees and annual revenues of nearly \$2 million. We manufacture our products in Lenexa and source the majority of our device components from local manufacturers.

Our human products, which are still in the developmental stage, will improve healthcare worker and patient safety in mass immunization campaigns by avoiding needlestick injuries, minimizing disease transmission through improper needle reuse and reducing sharps waste disposal expenses. Our human devices were recently the subject of a large scale clinical study in Beijing, China, which was supported through funding from the Bill and Melinda Gates Foundation.

Felton International has been operational since 2001, and in 2006 Felton International participated in the Kansas Angels tax credit program in conjunction with an investment round that resulted in over \$1 Million of new investment in our business. Most of our shareholders are high-net worth “angel” investors from the Kansas City area, so we are appreciative that the Kansas Legislature has incentivized investment in companies like ours through the Angel Investor Tax Credit program. Without angel investors, our technology would not be developed and our company would not exist today.

Like many small technology-driven businesses, Felton International has not generated positive cash flows during its first five years of operations. This is primarily a function of the product development lifecycles associated with novel products such as ours. Every animal species device we develop represents a 12-18 month development program involving (i) design, (ii) prototyping, (iii) field testing, (iv) design modifications, etc. Our human device development cycles are even longer, due to human safety precautions, regulatory constraints, and the sterile manufacturing processes required for human medical devices. For example, the recent large-scale human clinical trial in Beijing took three years to prepare for and complete.

Our company may seek to raise additional capital to support our human product development program and the launch of our animal devices into international markets. If

we do, we will most likely pursue additional investments from our current shareholders and other angel investors in our area. Investing in development projects like ours is not a short-term endeavor. Companies that are seeking capital after the initial startup phase will continue to benefit from angel tax credit programs and expansion of the 5-year company age requirement is welcomed by middle-stage companies like Felton International.

I would also like to touch upon another provision of Senate Bill 314 – the expansion of the tax credit to accommodate investment entities like S-corp's or limited liability companies. Our experience has been that potential angel investors strongly prefer to invest via business entities formed to hold their private investments. This provides an additional layer of liability protection for passive investors and can provide flexibility for subsequent transfers of the ownership interest. Thus, aligning the Kansas Angel Tax Credit program with these investment preferences should also serve to spur additional investment in Kansas startup companies.

Thank you again for inviting me to discuss this important legislation with the Commerce Committee.