

Technology Commercialization Seed Fund (TCSF) Guidelines

FISCAL YEAR 2006 | July 1, 2005 to June 30, 2006

Established under Kansas statute: 74-8109

The TCSF fund is limited. Only companies that meet the investment criteria outlined in the TCSF Guidelines are eligible. Successful investments generate jobs for Kansans and funds for KTEC to reinvest into other companies.

Objective

The Technology Commercialization Seed Fund is designed to invest in early-stage Kansas companies that are **1)** commercializing technologies, **2)** creating high-paying jobs, and **3)** engaging opportunities to create wealth within the company and an ROI for Kansas.

Evaluation

The investment evaluation will be based on TCSF objectives and KTEC's assessment of each company for:

- Unique or disruptive commercializable growth technology-based products,
- A growing revenue stream with signed purchase orders or customers,
- Plans to secure follow-on venture or angel funding, and
- A strong management team with the vision to utilize business and technical assistance when needed.

Consideration

To be considered, **the company must complete the TCSF application form and submit it along with a business plan.** The company must demonstrate, through market research, that a considerable market exists and that the project has the potential to produce substantial results for the Kansas economy.

Contact

Prior to submitting any information, KTEC advises that the business contact a member of the KTEC Investment team or a KTEC Commercialization Center.

- Michele Weigand (mweigand@ktec.com), VP of Investments and Portfolio Mgmt.
- Sheila Meyer (smeyer@ktec.com), Investments Assistant

All can be reached at (785) 296-5272.

1 Investment Criteria

Only qualified companies will be considered for TCSF investment. Funding may be made to companies working alone or in collaboration with universities, business incubators, or other companies.

1.1 Kansas Economic Benefit

TCSF is intended to invest in companies that benefit the Kansas economy through job and wealth creation.

1.1.1 Return on Investment

TCSF invests in companies with the potential to generate a monetary return on investment. The timing of the investment return will vary depending on the type of business and negotiated terms.

1.1.2 Kansas Jobs

The state should benefit by increasing its tax base through Kansas jobs and higher-paying salaries.

1.1.3 Kansas Business Location

A portion of the business must be conducted in Kansas. In some cases, businesses may incorporate in other states while conducting the principal business in Kansas. Applicants shall certify all state, federal and local licenses, regulatory requirements and qualifications are in order as needed.

1.2 Matching Requirement and Allowable Expenses

The company must match the TCSF investment with 150% of the amount of KTEC funding (60/40 split) with cash. The match requirement applies to any sized company and may include outside investors.

- The TCSF KTEC funds are to advance the commercialization effort for the technology and company and can be used for development, marketing, operations, working capital, etc.
- The company must commit matching funds before KTEC finalizes the investment.
- The company matching funds may be used for any purpose.
- Neither the TCSF nor company matching funds may be used to pay earlier investors or prior debt.

1.3 Technology Commercialization

The fund emphasizes technology commercialization that is beyond the product innovation stages. The company must demonstrate to KTEC that the company's technology is progressing on the commercialization path and that the company has secured at least one viable customer.

2 Investment and Review Process

The TCSF lifetime investment for any one company cannot exceed **\$250,000**. KTEC will seek a return on its investment through either convertible debentures, equity or in some cases royalty investments. KTEC will only invest in **C corporations** or **Limited Liability Companies**.

KTEC staff and the TCSF Investment Committee review all investment opportunities. Business plans that meet the investment criteria, and pass an internal screening and due diligence process will be invited to present to the TCSF Investment Committee that convenes approximately three times a year or on an as-needed basis. Only investments recommended and approved by the Committee will be submitted to the KTEC Board of Directors for final approval and funding. Submitting a business plan does NOT guarantee funding. Average time from final Board approval to initial funding is 1 to 2 months.

2.1 Investment Terms

TCSF investments are structured in terms that facilitate success and generate an ROI for KTEC and the company.

2.1.1 Convertible Debenture

Convertible debentures will be used when a company is preparing a later equity round of financing. This debt and equity instrument allows the company and KTEC to begin an investment relationship while avoiding a premature valuation process.

2.1.2 Equity

KTEC will consider equity financing in cases where a company has received a previous equity investment or has demonstrated a marketable valuation. Preference is given to preferred stock over common stock.

2.1.3 Royalty

The company will pay the royalty on a regular basis starting with the first product sale. Royalty rates are competitive with the current economic development financing market and may vary depending on the risk level of the company and the negotiated terms.

2.2 Due Diligence Review Process and Provisions of Funding

A committee of business and technical experts evaluates each company's business plan. The funding recommendation depends on the judgment of the Investment Committee and outside reviewers. The process is highly competitive.

- KTEC screens business plans for adherence to program intent and guidelines. Business plans not passing this screening will not be considered.
- KTEC conducts independent market research and analysis and evaluates the commercial potential of the company, including business strategy, market strategy, financials, management background (including credit checks on principals of early-stage companies and contacting of potential and existing customers) and overall product potential.
- Independent reviewers may be used by KTEC to evaluate the technical merits of the products and/or the services of the company.
- KTEC's Investment Committee reviews the company business plan and all background material.
- The company makes a presentation to the Investment Committee.
- The Investment Committee makes its funding recommendation to the KTEC Board of Directors for final approval.
- Once an investment is approved for funding, an investment agreement will be negotiated and signed outlining the terms, responsibilities, and obligations of each party.

2.3 Reporting

KTEC will require that companies report status on a regular basis.

- The company is required to maintain records and accounts that properly document the source and use of all funding resources and subsequent product revenues and economic impact. Such records will be subject to audit by KTEC, who will conduct on-site or teleconference reviews as necessary to adequately monitor the project.

All companies receiving an investment from KTEC will be requested to provide timely reporting and to participate in KTEC's annual economic impact survey.

3 Proprietary Information – Kansas Open Records Act (KORA)

KTEC is a quasi-state agency. KTEC, funded by the Economic Development Initiative Fund, reports to a Board of Directors appointed by the Kansas Governor, Kansas Legislature, and university presidents.

Any proprietary company financial information and intellectual property submitted to or discussed with KTEC is confidential and *not* subject to the Kansas Open Records Act. A list of exemptions can be found in **K.S.A. 45-221**.

- To ensure a strict confidential process, all confidential information (trade or business secrets as defined by Kansas law) should be clearly marked within the application. Such information will be held in strict confidence to the extent allowable by law.
- When KTEC does seek Board approval for funding, if trade secrets must be presented or discussed at a public KTEC Board or Committee meeting, the Board or Committee will enter a closed session to protect confidentiality.