

Investment Application Guidelines

Established under Kansas statues 74-8109 and 74-8107

Objective

KTEC will invest in early stage companies that have 1) innovative technologies, 2) potential to create high paying jobs in Kansas and 3) opportunity to create wealth within the company and an acceptable ROI for Kansas.

Evaluation

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

- Unique or disruptive commercializable growth technology-based products
- A strong management team with the vision to utilize business and technical assistance when needed.
- Potentially unique or disruptive innovative growth technologies,
- Vision to build a company around the technology and develop prospects for full-scale market role-out.
- Demonstrated market research reflecting a considerable market exists and that the project has the potential to produce substantial results for the Kansas economy.

Investment Criteria

Funding may be made to companies working alone or in collaboration with universities, business incubators, or other companies.

Kansas Economic Benefit

KTEC funds are intended to invest in companies that benefit the Kansas Economy through job and wealth creation. The company must demonstrate to KTEC that the technology is innovative and that considerable commercialization potential exists.

Return On Investment

Companies that receive funding will have the potential to generate an appropriate monetary return on investment. The timing of the investment return will vary depending on the type of business and negotiated terms.

Kansas Jobs

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

Kansas Business Location

The main 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. Companies shall certify all state, federal and local licenses, regulatory requirements, and qualifications are in order as needed.

Matching Requirement

The company must obtain at least 60% of their total funding from sources other than KTEC.

- KTEC funds are for the development of the technology and not to be used for basic research or working capital.
- The company must commit matching funds before KTEC finalizes the investment.
- KTEC will consider other company matching options on a case-by-case basis, but retroactive costs are not eligible.
- Neither the KTEC nor company matching funds may be used to pay earlier investors or prior debt.

Technology

The degree on innovation in the company's technology or technology research will be a deciding factor in KTEC's decision to make an investment. The fund emphasizes technology innovation that is beyond the early research stage.

Investment Process

Application and Business Plan

To be considered, the first step is to submit an application and business plan to the Investment Analyst:

- Wade Wiebe, Portfolio Manager
214 SW 6th St, First Floor
Topeka, KS 66603
Phone: (785) 296-8586
Email: wwiebe@ktec.com
Fax: (785) 296-1160

KTEC staff and the Investment Committee review investment opportunities. Business plans that pass an internal screening and due diligence process will be invited to present to the Investment Committee that convenes on a quarterly 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.

Investment Terms

Investments are structured in terms that facilitate success and generate an ROI for KTEC and the company. KTEC considers each investment, set of terms, and negotiation process unique.

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.

Convertible Debenture

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

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.

For royalty investments, KTEC will provide monies upon receipt of satisfactory progress reports and documentation of company expenditures.

Due Diligence Review Process

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 application and business plans for adherence to program intent, guidelines, investment opportunity, and budget. 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 technology, market strategy, financials, management background (including credit checks on principals of early-stage companies) and overall business 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. This committee meets on a quarterly basis.
- The company makes a presentation to the Investment Committee at the quarterly meeting.
- The Investment Committee makes its funding recommendation to the KTEC Board of Directors for final approval.

Provisions for Funding

Once an investment is approved for funding, an investment agreement will be negotiated and signed outlining the terms, responsibilities and obligations of each party.

If a royalty agreement is structured, payments are made as expenses are incurred and milestones are met. Royalty agreements may be terminated and unpaid monies withheld in the case of significant delays in reporting or in the completion of milestones.

Reporting

The company will be required to provide the following reports:

- (a) Documentation of the use of the source and use of funds.
- (b) Quarterly management discussion of accomplishments relative to established milestones and timeline and;
- (c) Quarterly financial statements
- (d) An annual budget summary.
- (e) Capitalization tables upon request
- (f) Annual participation in KTEC's economic impact survey

All records are subject to audit by KTEC.

Proprietary Information

KTEC, funded by the Economic Development Initiative Fund, reports to the 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 confidentiality 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.