

## Kansas Commercialization Corporations

*June 1998*

The Kansas Technology Enterprise Corporation (KTEC) is a quasi-public corporation established in 1987 to promote the creation, growth, and expansion of advanced technology enterprises in Kansas. KTEC programs include a Centers of Excellence program, grants for applied research and development, SBIR matching grants, seed capital financing; and, commercialization centers. KTEC is funded by proceeds from the Economic Development Initiative fund that consists of revenue from the Kansas Lottery and Racing Commission. In 1994, KTEC initiated its commercialization corporation program.

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### Background

Kansas' commercialization corporation program was established in 1994 to stimulate the creation and growth of technology-based businesses, and to facilitate technology transfer from the region's academic and entrepreneurial communities. Prior to 1994, KTEC—like most state-supported technology programs—invested significant resources to support university-based programs, including its Centers of Excellence and applied research and development grant programs. The KTEC Board, interested in achieving greater leverage from its R&D investments, began to explore ways to facilitate the formation of new companies and to capitalize on the technologies developed at Kansas universities. The commercialization corporation program, established under KTEC's existing statutory powers, was designed to provide a mechanism to accelerate the commercialization process. The legislature provided increased funding to KTEC to institute the program. In addition to KTEC, each commercialization corporation has a university and local sponsor. The initial three corporations were created at Kansas' three research universities, each of which were home to one or more KTEC Center of Excellence.

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## Program Description

The commercialization corporations use their entrepreneurial, financial, and research capabilities to assist start-up technology-based companies and to transfer new technologies to the market place. The three corporations are:

- **Kansas Innovation Corporation (KIC)**

A partnership of KTEC, the University of Kansas and the Lawrence Chamber of Commerce

- **Mid-America Commercialization Corporation (MACC)**

A partnership of KTEC, Kansas State University, the City of Manhattan, and the Manhattan Chamber of Commerce

- **Wichita Technology Corporation (WTC)**

A partnership of KTEC, Wichita State University, and Wichita Area Development

## Services

The corporations provide a full range of technical and business services, office space, and managerial support to start-up companies. Services include:

- business plan development, including marketing and financial analysis;
- competitor analysis;
- market research;
- assistance in locating and accessing financing;
- sales and marketing strategy development;
- management consulting;
- technical assessments;
- prototype development; and
- patent and trademark assistance.

In a few selected cases, the corporations may provide board and management services on an interim basis, through its for-profit subsidiary company.

## Clients

The commercialization corporations enter into a formal client agreement with each company they plan to assist. The agreement outlines the services that will be provided and the mechanism by which the corporation will receive a return on its investment if the company succeeds. In general, the corporations assume a small (in the range of 3-5 percent) shareholder or equity position in the companies and negotiate royalty payments on commercially successful products. Potential clients must be technology-based and have high growth potential. Criteria used by the Wichita

Technology Corporation (WTC), for example, to select clients include: a willingness to locate all or part of the development or production in Kansas, specifically in the Wichita and South Central Kansas area; development of a technology-based product or service; the potential to achieve \$5–\$10 million in sales within five years; and acceptance of WTC as a partner through a relationship such as an equity position, royalty basis, licensing agreement or other applicable agreement.

## **Funding**

Each commercialization corporation receives approximately \$300,000 per year from KTEC. The funding may be allocated between service support and seed capital. The commercialization corporations receive additional funding from affiliates of their host universities and local sponsors. The Mid-America Commercialization Corporation in Manhattan, for example, receives about \$100,000 from the City of Manhattan and \$100,000 from the Kansas State University Research Foundation for providing services. In addition, KTEC funds up to \$600,000 for seed capital that is matched over three years by contributions from the City and the Kansas State University Foundation. The city funds come from a sales tax increase enacted to support economic development.

## **Affiliate Commercialization Centers**

Kansas initially established three commercialization corporations, one at each of the state's research universities, with the expectation that the corporations would invest in technologies developed at the universities. Based on the initial experience of the corporations, which found that a significant percentage of their projects did not involve university-developed technology, KTEC decided to establish additional affiliate commercialization corporations around the state. The expansion of the network is based on the premise that entrepreneurs in every community could potentially benefit from commercialization assistance.

Two affiliate commercialization corporations are located in the Kansas City metropolitan area. A third is located in Hutchinson County and works with the Wichita Technology Corporation to serve firms in south Central Kansas.

The affiliate commercialization corporations are funded at a lower level and work in partnership with the three original corporations. The affiliate commercialization corporations receive a maximum of \$100,000 and require at least a 1:1 match. KTEC funds are used for providing services, investing in a seed fund, or a combination of the two with the usage varying from corporation to corporation. For example, in Johnson County a locally supported incubator was chosen to operate as an affiliate

commercialization center and the KTEC funding is used entirely for a local seed fund. The fund is managed by the Kansas Innovation Corporation's affiliated seed fund, Kay Holding, LLC.

## **Organizational Structure**

Each commercialization corporation is a 501(c) (3) corporation reporting to an independent board of directors. The commercialization center's tax-exempt status allows it to receive grants and in-kind support from foundations and other organizations. Each center has a 13-member board that includes four members appointed by the university (vice-presidents for research, deans), four appointed by the local sponsor (generally business leaders), and four business leaders and legislators appointed by KTEC. The President of KTEC or his representative serves as an *ex officio* member, along with *ex officio* members from other sponsoring organizations, such as the city, county, or chamber of commerce.

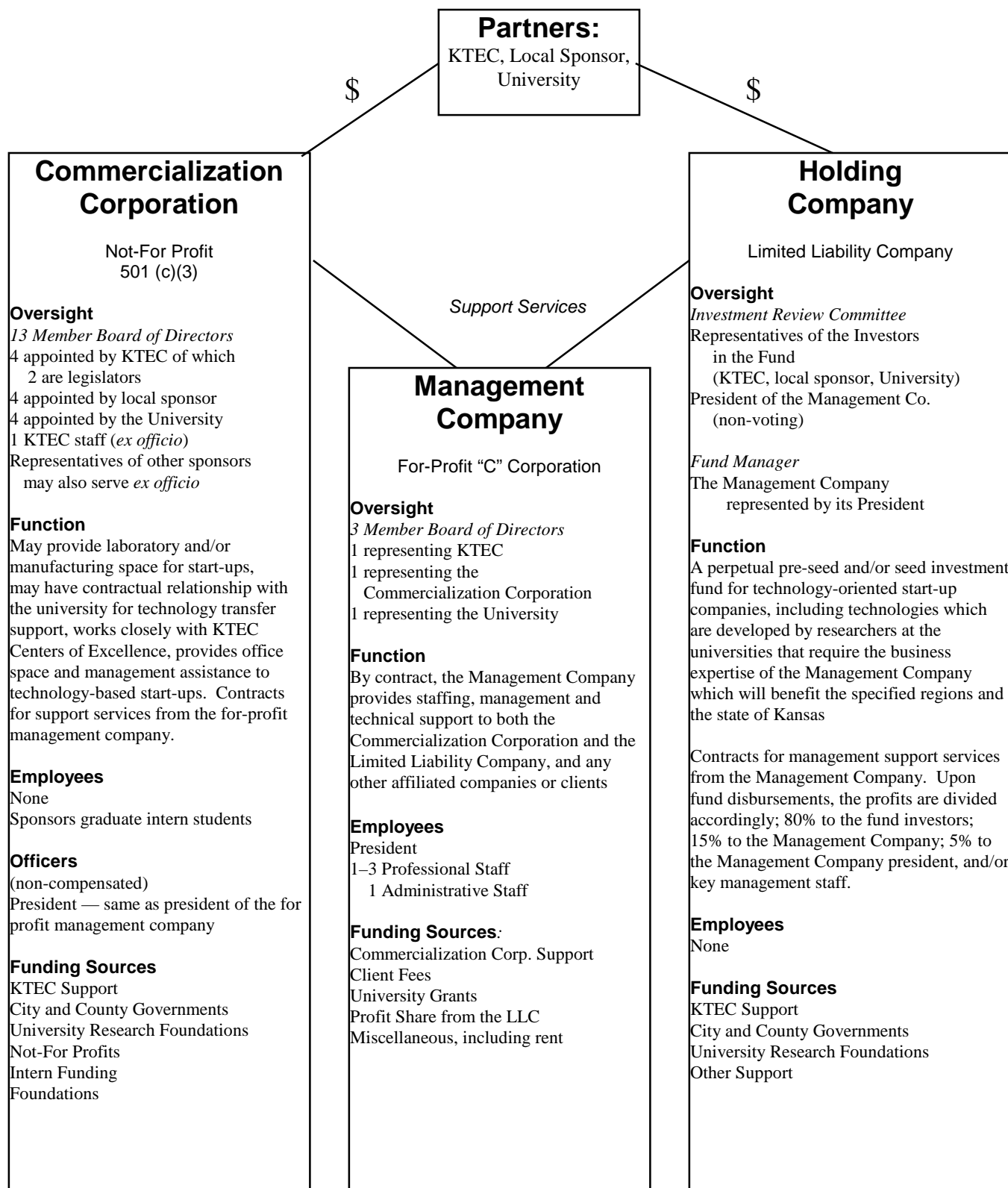
Each commercialization corporation is affiliated with both a for-profit corporation and a holding company that manages a pre-seed and/or seed capital fund. The holding company is structured as a limited liability company. The for-profit company provides staffing, management and technical support to both the commercialization corporation and the holding company. The for-profit company is overseen by a three-member board of directors composed of a representative of KTEC, a representative of the commercialization corporation, and a representative of the University.

## **Staffing**

A president, one to three professionals, and one support person staff each commercialization corporation. The staff are employees of the for-profit company. In addition, the corporations use graduate student interns, supported by grants from foundations, who provide marketing, business development, and technical assistance. The presidents, who have expertise in developing small companies, transferring technology from the public to the private sector, and managing pre-seed and seed capital funds, were recruited internationally.

# ORGANIZATIONAL STRUCTURE

## Kansas Commercialization Corporations



**Partners:**  
KTEC, Local Sponsor,  
University

**Commercialization Corporation**

Not-For Profit  
501 (c)(3)

**Oversight**  
13 Member Board of Directors  
4 appointed by KTEC of which  
2 are legislators  
4 appointed by local sponsor  
4 appointed by the University  
1 KTEC staff (*ex officio*)  
Representatives of other sponsors  
may also serve *ex officio*

**Function**  
May provide laboratory and/or  
manufacturing space for start-ups,  
may have contractual relationship with  
the university for technology transfer  
support, works closely with KTEC  
Centers of Excellence, provides office  
space and management assistance to  
technology-based start-ups. Contracts  
for support services from the for-profit  
management company.

**Employees**  
None  
Sponsors graduate intern students

**Officers**  
(non-compensated)  
President — same as president of the for  
profit management company

**Funding Sources**  
KTEC Support  
City and County Governments  
University Research Foundations  
Not-For Profits  
Intern Funding  
Foundations

**Holding Company**

Limited Liability Company

**Oversight**  
*Investment Review Committee*  
Representatives of the Investors  
in the Fund  
(KTEC, local sponsor, University)  
President of the Management Co.  
(non-voting)

*Fund Manager*  
The Management Company  
represented by its President

**Function**  
A perpetual pre-seed and/or seed investment  
fund for technology-oriented start-up  
companies, including technologies which  
are developed by researchers at the  
universities that require the business  
expertise of the Management Company  
which will benefit the specified regions and  
the state of Kansas

Contracts for management support services  
from the Management Company. Upon  
fund disbursements, the profits are divided  
accordingly; 80% to the fund investors;  
15% to the Management Company; 5% to  
the Management Company president, and/or  
key management staff.

**Employees**  
None

**Funding Sources**  
KTEC Support  
City and County Governments  
University Research Foundations  
Other Support

**Management Company**

For-Profit "C" Corporation

**Oversight**  
3 Member Board of Directors  
1 representing KTEC  
1 representing the  
Commercialization Corporation  
1 representing the University

**Function**  
By contract, the Management Company  
provides staffing, management and  
technical support to both the  
Commercialization Corporation and the  
Limited Liability Company, and any  
other affiliated companies or clients

**Employees**  
President  
1–3 Professional Staff  
1 Administrative Staff

**Funding Sources:**  
Commercialization Corp. Support  
Client Fees  
University Grants  
Profit Share from the LLC  
Miscellaneous, including rent

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## Accomplishments

In FY 1997 the commercialization corporations evaluated ninety-one potential clients and signed formal agreements with twenty-one companies. After their first three years of operations, the commercialization corporations hold equity positions in twenty-three companies, fourteen of which were newly established. Commercialization corporation client companies report the creation of 205 jobs and \$13.5 million in new sales. Fourteen copyrights/patents have been filed, and two patents have been issued. The commercialization corporations generated \$166,304 in royalties and received \$179,632 in fees for services.

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## Lessons Learned

First, KTEC staff emphasize the importance of engaging local sponsors and building consensus among partners—KTEC, the university, and local government—to ensure the long-term success of the commercialization corporations. Prior to establishing the initial three commercialization corporations, KTEC staff met with local committees composed of representatives of the business community, local government, and the university on a weekly basis over a nine month period to determine what services would be provided by the corporation and how it would operate. Ongoing community leadership support and involvement has proved vital to the continued operation of the commercialization corporations.

Secondly, planned privatization was built into the initial design of the commercialization corporation program. Over time, each center is expected to become self-supporting. After three years of operation, the corporations have been successful in generating revenue through client fees and by taking equity positions in companies. The directors caution, however, that it will take about ten years for royalties and fees to build up sufficiently to allow the corporations to be self-supporting

Finally, being able to provide access to small amounts of pre-seed and/or seed capital is a critical component of the commercialization corporation program. The small size of the investment funds, however, means that accessing private capital sources is vital. Several clients of the Wichita Technology Corporation, for example, are looking to private placements to raise capital. One client company has already obtained second round financing from private investors.

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## Challenges

One difficulty encountered while setting up new companies to commercialize technology has been finding capable entrepreneurs and managers skilled in starting up technology-based firms. This is particularly true in rural areas such as Manhattan, where Kansas State University is located. To combat this problem, the Mid-America Commercialization Corporation (MACC) provides initial management support for new ventures and helps to recruit experienced managers.

Another challenge is identifying the capital resources necessary to grow new companies. To date, the commercialization corporations have been successful in incubating new ventures. As these companies grow, they will need access to venture capital. Commercialization corporation staff acknowledge that successful start-up companies will be at risk of moving if they cannot access the capital they need in Kansas. Efforts to expand venture capital markets in Kansas are ongoing. Assuming that their capital needs can be met, the companies are expected to stay and grow in Kansas, largely because they depend on the expertise resident in Kansas' universities.

Lastly, given the mission and structure of the commercialization corporations, they must select as clients the firms and entrepreneurs with the greatest potential to succeed. The corporations must therefore carefully evaluate and choose relatively few clients. This approach differs from more traditional public sector programs that seek to assist large numbers of client companies, providing services to all who request them. Maintaining public support for the program, while at the same time trying to move toward self-sufficiency, is a challenge for these types of initiatives.

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## Success Stories

- The MACC has created a start-up company to commercialize technology developed at Kansas State University. The company has developed a technology with applications for environmental remediation and protection against toxic materials. It builds on core technology in advanced materials with a focus on chemical applications. The university has licensed the technology to the company. The principal scientist serves as the company's chief technical officer while continuing to hold a place on the faculty on a fractional appointment basis. The MACC identified the technology as having commercial potential, helped to form the company, and currently provides management support. The company is currently

conducting research for the Department of Defense, and working with several potential customers in civilian markets.

- WTC is assisting a company that produces interactive CD ROM-based training materials. The company, started by four Wichita State University students, recently raised \$1.3 million in private capital.
- KIC client, Help Innovations, Inc., brings health care to patients at home through interactive television. The Resource Link TeleHome Healthcare system was developed by the corporation and is marketed nationwide. The company was started by a registered nurse who invested her personal assets in the company. KIC has helped the company obtain significant levels of follow-on funding through two strategic partnerships.

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