

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

KHIC, USDA Rural Development announce Self-Help Housing Program for Clinton County



Elmer Parlier, vice president/housing for KHIC; USDA Rural Development State Director Ken Slone; Clinton County Judge Executive Lyle Huff, U.S. Sen. Mitch McConnell and Albany Mayor Nick Smith participated in the announcement of the Self-Help Housing Program.

She survived the tornado of 1974. And she's waited 61 years to have a home to call her own. In May, Joan Thomas finally got her wish.

Thomas is part of a new program that will help 12 families in Clinton County build and own their own homes.

The USDA's Rural Development has awarded Kentucky Highlands a \$249,000 grant, through its Self-Help Housing Program. The grant funds will offset administrative costs and pay construction supervisory personnel to train homeowner/builders and oversee the first phase, which will construct four of the 12 homes.

"The tornado of 1974 took my mobile home and my sister's mobile home,"

Thomas said. "This will be my first house, and since it will have a basement, it'll be the first time in more than 30 years that I won't have to worry every time a storm hits.

"I'll have my own place, which I've always wanted before I die. Right now, I'm living in a 1974 mobile home that's not in good shape."

Total value for the entire program will be \$1.2 million. Additional funding for families will come from Rural Development, which provides the first and largest mortgage for Self-Help recipients. KHIC also will work to identify other sources of funding depending upon the circumstances of each individual household.

Qualifying families will save money by building their own homes under the direction of Kentucky Highlands, and they will qualify for low interest, long-term, no down payment loans from USDA. Twelve homes will be built near the fairgrounds in Albany.

"For three years, we've been working with other partners to explore ways to bring more affordable housing to families in this area and to create jobs through affordable housing," said Jerry Rickett, president & CEO of Kentucky Highlands Investment Corporation. "This is the first effort where Kentucky Highlands has taken the lead, and we are excited to

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Going strong at 40

By Jerry Rickett



Jerry Rickett

In August, Kentucky Highlands Investment Corporation will mark a significant event – the celebration of our 40th anniversary.

Started as a community

development corporation during the War on Poverty in 1968, KHIC has grown to become one of the largest development venture capital investors in rural America.

But it has taken the entire community – elected officials, business owners, educators, financial institutions, government entities and community leaders – to make our efforts successful.

It's a time to give thanks for what we have accomplished and thank you for helping make this vision a reality.

Here's what we have accomplished together:

- Helped create more than **10,000 jobs**;
- Provided more than **500 businesses** with more than **\$165 million** in financing;

Companies in which Kentucky Highlands has invested:

- Produced goods and services valued at **\$13.5 billion**;
- Paid more than **\$1.9 billion in salaries and wages**; and
- Generated an estimated **\$300 million in tax revenue**.

Obtained one of only three rural Empowerment Zones to the region, which;

- Resulted in **\$40 million in investments**;
- Created **3,600 new jobs**; and
- **Reduced poverty and unemployment** by more than 30 percent.

We have been successful in maximizing public and private investment capital in an area of the country that traditional venture capitalists have neglected.

But the accomplishments are more than mere numbers. For every achievement, there are many families who have gained economic stability. For every success, a solid tax base is created for important government services. For every accomplishment, there is a region that people look to with pride and live there with hope – an enduring legacy for our children.

But what we do in the next 40 years is even more important. There's a reason the window in the front of the car is bigger than the rear view mirror: We need to be looking and moving forward.

At Kentucky Highlands, we understand that success is a work in progress. That's why we continue striving to bring new opportunities to our region and beyond.

Our annual newsletter shows just a few examples of the myriad ways KHIC is fueling the economy – from affordable loans to venture capital to entrepreneurial training. In addition, two of our newer efforts – the Self-Help Housing Initiative

and the Energy Boot Camp – will promote economic well-being and stability in the region.

We look forward to what the next 40 years will bring.

Sincerely,

Jerry Rickett
President & CEO

Investing in Our Community Fiscal Year 2008

Dollars loaned \$10.1 million

Equity invested \$1.1 million

Total investments \$11.2 million

Total leveraged funds \$53 million

- \$16.5 million by KHIC New Markets Tax Credit
- \$14.5 million by KHIC
- \$12.7 million by Southern Appalachian Fund
- \$9.4 million by Meritus Ventures

Number of investments 88 loans and five equity investments

Total employment as of 03/31/08 9,769

** All numbers are rounded with the exception of number of loans and total employment.*

Self-help housing program *Continued from page 1*

integrate affordable housing with job training and job creation.”

Kentucky Highlands has helped with seven housing projects in the past. Like previous activities, this program will utilize a major housing component developed by KHIC – the housing CORE. It's a factory-built kitchen/bath unit that will create jobs for local people while speeding up the on-site construction work and reducing the cost of specialized tasks such as plumbing,

electrical wiring and carpentry. Students at Southeast Kentucky Community and Technical College and Foothills Academy will gain practical job skills by building the CORE units.

“This federal grant by the USDA and KHIC will allow qualifying families in Clinton County to have a place to call home,” U.S. Senator Mitch McConnell said. “These programs are so important to Kentucky, and I am pleased the funding will

be provided for this worthwhile program.”

Other funding sources are augmenting this project. In addition to capacity-building support from Rural LISC, the Kentucky Housing Corporation is providing assistance through its HOME and the Affordable Housing Trust Fund.

For more information on how to apply for a home, contact Elmer Parlier, vice president/housing of Kentucky Highlands, at (800) 998-7694.

Energy Boot Camp to help entrepreneurs build successful alternative energy companies



On its annual bus tour, Kentucky Highlands took board members and employees to visit Lube Wizard, which is participating in the Energy Boot Camp. The McCreary County company makes biodegradable lubricants – mainly for amusement park steam engine trains, classic cars and model trains.

A new program is harnessing green resources and identifying untapped potential to help entrepreneurs create new businesses focused on renewable energy and energy-efficient opportunities.

The Kentucky Highlands Energy Business Boot Camp is a new intensive performance-based entrepreneurial training and mentoring program that is being conducted in partnership with the Center for Entrepreneurial Growth, which has offices in Oak Ridge, Tenn., and London, Ky.

The boot camp has focused on helping energy-related researchers, inventors and entrepreneurs create a fundable, sustainable and profitable business model that will help create jobs in the region.

Five entrepreneurs were selected for the boot camp earlier this year. They have participated in intense training sessions, received individualized coaching and gotten assistance in developing a business and funding plan.

The boot camp culminated in a symposium at the Center for Rural Development. The symposium facilitated partnership opportunities by connecting investors, innovators and entrepreneurs of new energy-based enterprises.

“This project will capitalize on Kentucky’s strengths, but utilize them in a way that

supports businesses in the 21st century economy,” said KHIC’s President & CEO Jerry Rickett. “KHIC will lead the way with proven business development programs and intensive entrepreneurial management training. Our partnership with Tech 2020 will bring an organization to the table that has a long history of commercialization and development of research applications from Oak Ridge National Labs.”

The \$225,000 program, which will include two nine-month sessions, is being funded through the Appalachian Regional Commission, the Governor’s Office of Energy Policy and KHIC.

The second nine-month session will start in late summer with applications being accepted beginning in late July through August.

Bob Wilson, director of the Center for Entrepreneurial Growth and KHIC consultant, leads the program. Wilson and his CEG Team are running other successful business incubators – one in Oak Ridge, Tenn., one in Knoxville at the University of Tennessee campus and another in Asheville, N.C. In addition, the CEG team has worked with more than 120 start-up companies.

“This unique opportunity will allow Kentucky to utilize its regional assets and

The boot camp has focused on helping energy-related researchers, inventors and entrepreneurs create a fundable, sustainable and profitable business model that will help create jobs in the region.

core strengths from the ‘old’ economy and turn them into opportunities in a fast-growing energy space that is driving a global, high-tech market,” Wilson said.

The five diverse entrepreneurial teams are developing fundable and sustainable businesses based on the following:

- Wind farms on reclaimed Eastern Kentucky ridge-top coal mines;
- Manufacturer of biodegradable 100 percent loss lubricants and greases;
- The use of fly ash in both plastic and metal alloys to enhance physical properties;
- The conversion of biomass products to syngas; and
- A company using thermobaric energy processes and systems to produce new energy and deal with serious environmental issues.

“These companies will be major contributors to economic impact and the growth of new technologies in Eastern Kentucky,” Wilson said. “The boot camp is helping them develop sustainable business models that lead to necessary funding and support to develop into sustainable businesses. In turn, those businesses will impact the entire region by employing people, creating profits and helping solve the nation’s growing energy problems.”

Please contact Wilson at bwilson@khic.org or visit www.khic.org for more information on applying for the next boot camp.

From the State Department to the USSR to London (Kentucky, that is)



PD3, which is on track to become one of the top 20 employers in Rockcastle County, helps inventors and entrepreneurs take their raw ideas, guides them through the multiple stages of development and helps them through the manufacturing and distribution process.

Entrepreneur gets help with working capital, training classes

Sometimes the path of an entrepreneur is a long, winding one before he decides to start his own business. Just ask Rex McDonald, a native of Corbin who worked in the U.S. State Department, which took him many places, including the former Soviet Union.

After returning to the United States for family reasons in 1996, he lived in Lexington, started a business service company that assisted others in importing goods and invested in another company before he finally moved to London to start his current venture – PSR Group, which is doing business as PD3 in Mt. Vernon. The company helps inventors and entrepreneurs take their raw ideas, guides them through the multiple stages of development and helps them through the manufacturing and distribution process.

“After coming back to Kentucky, it was clear to me there was a great deal of innovative and entrepreneurial spirit that

needed help in bringing products into the marketplace,” McDonald said. “The farther I traveled, the more I realized a need in providing services to those who have ideas that were strong enough to reach the marketplace, but those inventors might not have an opportunity to have developed the necessary entrepreneurial skills or have the experience of bringing a product to market. Out of this need came the clear vision to assist other companies in developing innovative and market capable products.

“It is also the most fun I have ever had. Every day is a challenge. How great is it to wake up every day looking forward to going to work. Our company develops products that I am proud of, find value in and want to have my name associated with their development.”

PD3 focuses on four major categories – transportation/precision engineering, environment, safety and security, and agriculture and veterinary science.

It anticipates employing 55 people by the first quarter of 2009 – up from six employees when it began and the 14 workers it has now. Its business model uses the Kentucky Department of Labor’s

prevailing wage scale as its guide and adds 10 percent to ensure that it provides employees with a positive incentive to stay with the company. PD3 also provides all its employees with a medical, dental, vision and a retirement plan, which has resulted in low turnover.

When at full capacity of its design, manufacturing and distribution sectors, PD3 will be in the top 20 largest employers in Rockcastle County and will greatly enhance the economy not only through the payroll that it generates but also the businesses that have relocated to be in proximity to PD3 to work on product development.

Current examples of this include clients CD Safe Shields Inc. and Solway Enterprise LLC, which rent office space from PD3. The company is in current negotiations with a third company to rent its final office space for long-term clients.

In addition, PD3 has a mandate to use local vendors whenever possible. It recently ended a deal with a company in Chicago when it found a Somerset business that could provide what it needed.

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Entrepreneurs find success with high-skill jobs



Precision Solutions specializes in prototype products. Its primary contract is with Reveal Imaging Technologies and involves building explosive detection scanners for airports.

Emerging from the ashes of the tragic fire at Mid-South Electronics in 2005, Precision Solutions realized that a new business strategy was needed to keep jobs here in Southeastern Kentucky.

“High-volume, less-skilled production has moved overseas,” said Daryl Weaver, who manages the family-owned company. “We realized that we needed to focus on a low-volume, highly skilled production and engineering business to build a solid, successful company that pays good wages to area residents.”

The Weaver family, serial and seasoned entrepreneurs, seems to have found the right equation with Precision Solutions, which specializes in prototype products. Its primary contract is with Reveal Imaging Technologies and involves building explosive detection scanners for airports. Other customers include Lexmark, General Electric and Sargent & Greenleaf.

There are 54 employees, and during its first year of operations in fiscal year 2007, it achieved sales of more than \$4 million.

The Jackson County company is one of two businesses created after the break-up of Mid-South Electronics. (The other is Annville Mold & Die.) Precision Solutions operates out of two buildings in the Jackson County/McKee Industrial Park.

Working with Kentucky Highlands to obtain a \$349,000 Rural Business Enterprise Grant (RBEG) from the USDA, Precision Solutions used the funds as

working capital to assist with their start-up operations.

The Kentucky Highlands partnership with USDA Rural Development through the RBEG program stretches more than 15 years. During that period, Kentucky Highlands has received 16 such awards totaling more than \$4.1 million.

The mission of the grant program is to support small and emerging business enterprises by using financing as loans for startup operating costs and working capital. In addition to loan funds, technical assistance for private business enterprise is among its primary goals.

“The Rural Business Enterprise Grant program has become a vital tool in Kentucky Highland’s efforts to support area entrepreneurs,” said Jerry Rickett, president & CEO of KHIC. “It fits with our philosophy in two ways. First, it provides more than money. Technical assistance is a crucial component for success.

“And second, the program invests in local entrepreneurs, who have a vested interest in improving the area economy and quality of life.”

From the State Department *Continued from page 4*

That same philosophy holds true with hiring. PD3 tries to hire local workers whenever possible.

“I have always been drawn to the region,” McDonald said. “I believe that anytime you have an underserved and underappreciated demographic, the opportunities for growth are boundless.”

And it was by teaming up with KHIC for initial working capital that McDonald is realizing those opportunities.

In addition to debt financing, Kentucky Highlands and its subsidiary Mountain Ventures Inc. have provided equity financing, including a cash investment as well as a rent-for-equity deal in which PD3

is exchanging equity in the company, on a monthly basis, in lieu of paying rent for the building it now occupies.

KHIC also recently closed a revolving line of credit with the company for working capital purposes. But one of the most significant contributions does not involve money. Before locating in Mt. Vernon, PD3 rented a suite in the Kentucky Highlands business incubator. McDonald and co-founder Hanners “Hank” Gevedon participated in the entrepreneur training classes offered by Kentucky Highlands’ Center for Entrepreneurial Growth (CEG) while they formulated PD3’s business model and strategies.

McDonald said he still relies on CEG training instructor Bob Wilson for valuable advice.

“Bob Wilson’s class helped me develop a corporation that has all the attributes to become self-sustaining and to grow well beyond the founding individuals’ capabilities,” McDonald said. “Even though I completed the entrepreneurial training class, I still use him as a resource and speak to him several times a month about new challenges that are faced by PD3 and consider him a valuable resource giving me independent and candid assessments.”

McCreary Primary Care brings important services to underserved area



Since McCreary Primary Care opened its doors in September 2007, more residents are able to have their health-care needs met without having to travel to other counties.

Waiting three to four hours in a doctor's office and sometimes leaving without being seen because you can't wait any longer...

Driving a sick child to another county because there is no pediatrician here...
Going without medical care because you are too sick to leave your house...

Those stories were reality for McCreary Countians before McCreary Primary Care opened its doors in September 2007.

In fact, the county was so underserved that 49 percent of Medicaid recipients

were seeking care outside the county. That's when McCreary County native and nurse Jeanne Strunk came in. After assessing the need, she worked with Kenneth Allison -- a Lexington resident who has more than 20 years experience in medical case management and medical equipment sales -- to create the primary care center.

"I came back after 17 years and saw that the level of health care had actually regressed," Strunk said. "It is the community that time forgot in terms of health-care services.

"We are trying to bring the most up-to-date disease treatment to them."

For example, in addition to offering child vaccination programs, treating fractures and providing intravenous fluids for dehydration, they are working with families to combat obesity.

McCreary Primary Care Center also offers home care services to patients who are too sick to leave their homes. In addition, the facility landed the first pediatrician for McCreary County. It also has two nurse practitioners and a total of nine employees.

"All of the employees are McCreary County natives," said Strunk, who serves as the manager of the practice. "I like to say that when a patient comes in, it's like family. Someone here is going to know them, and they'll feel comfortable asking questions."

Strunk also is teaming up with the University of Kentucky to apply for a federal grant for telemedicine, which would give McCreary County unprecedented access to specialists.

She said KHIC recognized the value of the clinic from the beginning. KHIC is designated as a guaranteed lender in the USDA Business and Industry Loan Guaranty Program, which allows Kentucky Highlands to make loans up to \$10 million and receive a guaranty from USDA. By using this program, Kentucky Highlands is able to offer long-term fixed rate financing.

KHIC was able to turn her business plan into a B&I plan, which helped provide start-up capital. Strunk said Congressman Hal Rogers' office also provided important assistance.

Intermediary Relending Program

EST thrives despite trend of outsourcing

All too often in the last decade, manufacturing jobs have been shipped overseas. But companies like EST Tool & Machine, along with the help of Kentucky Highlands, have found the recipe for success.

Focus on manufacturing that requires skill, then move to Kentucky for a reliable and productive work force. Top it off with the secret ingredient -- access to affordable financing, reduced closing costs and management assistance.

EST produces custom precision tooling and parts for many area customers, such as International Crankshaft in Georgetown and

L-3 Communications in Richmond, as well as clients in other states, such as Arkansas.

"Manufacturing in this country has dwindled a lot," said Steve Taylor, president of EST, which employs 20 people. "But there are still good jobs and steady employment. People here work about 55 hours a week and get plenty of overtime. We have full benefits, vacation and pay half of the insurance costs."

EST is a recipient of KHIC loans through the USDA intermediary relending program, which is a federal program that helps organizations such as Kentucky

Highlands establish revolving loan funds for small businesses and community development projects in rural areas. KHIC then has greater flexibility in fixing the terms of the loans so borrowers aren't subject to interest rate fluctuations.

"They're really great to work with," Taylor said. "They helped us move here and have helped every time we've expanded the business. They're always there to help -- even with things like the accounting software.

"That's why I've recommended Kentucky Highlands to other people."

Regional venture funds stimulate growth



Tier 1 provides consulting services and a set of web-based knowledge and learning management systems. Pictured are Jim Foley and Stephanie Lusk at the headquarters in Covington.

Two regional venture funds are helping entrepreneurs and companies in Appalachian states receive the tools they need to succeed. Started through a collaboration between Kentucky Highlands and Technology 2020 of Oak Ridge, Tenn., the Southern Appalachian Fund and Meritus Ventures provide capital and operational assistance – two critical elements that often are difficult to find outside the nation's largest cities.

Tier 1 Performance Solutions and Wazoo Sports are two innovative Kentucky companies that have received financial and management assistance from the funds. Headquartered in Covington, Tier 1 provides consulting services and a set of web-based knowledge and learning management systems.

The company has done work for more than 100 organizations, including companies like FedEx, Cintas, Rockwell-Collins, and Luxottica; government entities such as the U.S. Air Force; and non-profits, including The National MS Society and the American Society for Quality.

“Our business model is somewhat unique in that we bundle our on-line learning management software with a mix of resources who have a wide variety of skill sets to give our clients an on-going delivery expert capability, in a cost-model that is variable, agile and adapts with the

business,” said Greg Harmeyer, CEO of Tier 1.

The company, which started in late 2002, has about 35 employees. The payroll, including contractors, exceeds \$3 million annually.

Harmeyer said he is pleased with the support of the Southern Appalachian Fund and its management team, which includes Ray Moncrief, who is also executive vice president and COO of Kentucky Highlands.

“Our relationship has been outstanding,” Harmeyer said “Beyond the obvious impact that capital has on a business, SAF has helped in multiple ways. First, they’ve provided great guidance through participation in our board and sharing insights from what they’ve learned in their vast business experiences. They’ve helped inject additional discipline and focus in the business. In addition, they’ve provided some very valuable introductions that will help our business grow.

“Finally, through the Operational Assistance program, SAF has helped us access resources in areas we couldn’t otherwise get which has had a significant

impact. We couldn’t be more pleased in the relationship we have.”

The company has been receiving national recognition in the last 18 months. Tier 1’s founders – Harmeyer, Chairman and Chief Technology Officer Norman Desmarais and Dr. Kevin Moore – were selected as the 2007 Kentucky Small Business Person of the Year, and the company won the Blue Ribbon Small Business Award from the U.S. Chamber of Commerce in 2007 and 2008.

Tier 1 was also named on the inaugural Inc. 5000 list of the fastest growing businesses in the United States last August.

Wazoo Sports and Meritus Ventures

Wazoo Sports, Inc., founded in December 2007, is an online broadcast company located in a rural census tract in London that specializes in high school and small college sports events. It has received assistance through Meritus Ventures.

Wazoo’s content is delivered both live and on demand, giving the viewer total flexibility in viewing options. The company delivers video content to the user over the Internet using the latest in



Carlos “Doc” Carpenter (left) is president & CEO and Jeff Sheppard is director of sales for Wazoo Sports, Inc., an online broadcast company that specializes in high school and small college sports events.

streaming technology combined with professional broadcasting technology, resulting in a broadcast similar to traditional television.

Once just for local fans, high school sporting events are becoming increasingly popular on a national, and even

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EZ money to preserve scenery, provide tourist attraction



Photo courtesy of Judy Schmitt

The Empowerment Zone provided \$205,000 for the purchase of the land at Flat Lick Falls — a local treasure that is soon to become an area recreational spot, an outdoor classroom and potential national attraction.

From the 35-foot cascading waterfall to the pristine woodlands, Flat Lick Falls is a local treasure that is soon to become an area recreational spot, an outdoor classroom and potential national attraction.

Kentucky Highlands Empowerment Zone money, originally slated to fund a reservoir, is now being used for the Flat Lick Falls project and several others in Jackson County.

“People from about every state in the country have been to see the falls – even before the land was made public,” said Judy Schmitt, owner of JC Tech and a member of the Friends of Flat Lick Falls. “Once we’ve established hiking trails and market it, this is going to be a tremendous asset to the community. It’s a beautiful, unique and outstanding feature.”

The KHIC EZ provided \$205,000 for the purchase of the land. The Peoples Rural Telephone Cooperative gave \$50,000, and an anonymous donor gave about \$50,000.

The latest good news came in May, when the Jackson County Fiscal Court was awarded a \$100,000 grant from the state’s Kentucky Recreational Trails Program.

Three tracts of land totaling more than 80 acres have been purchased. The first tract is pristine and will only include hiking trails. The second tract contains the falls. Mining previously occurred in that area, so more extensive plans for camping, hiking and a play area are intended.

There are long-term plans to build a lodge on the third tract of land.

The \$100,000 grant will allow the project to construct hiking trails, walking bridges across the streams, a lookout platform above the falls, parking and restrooms. Those features should be complete by spring if an archeological review this fall gives them approval.

More funding will be needed to complete the other projects. Contributions can be made to “Friends of Flat Lick Falls” by contacting Judy Schmitt or Mary Hayes at 606-364-2024.

Regional Venture Funds *Continued from page 7*

international, level. Wazoo provides the unique opportunity to view broadcasts of entire games, giving fans anywhere with access to the Internet an opportunity to watch their favorite players and teams, as well as giving athletes substantially more exposure to college recruiters, who can watch games without having to travel to them.

Wazoo Co-Founder and CEO Carlos “Doc” Carpenter brings more than 22 years of telecommunications experience and several entrepreneurial endeavors to Wazoo. A native of Manchester, Carpenter

began Wazoo at KHIC’s business incubator in London.

“I have started four other businesses in Kentucky and enjoy the challenge of starting businesses and watching them develop into companies that allow job creation and give people in London and the surrounding area an opportunity to work in technology who otherwise may never have the opportunity,” Carpenter said. “I enjoy the creative aspects and the challenge of being an entrepreneur. A lot of people overlook rural areas, but I see them as an opportunity.”

Wazoo focuses primarily on high school basketball and football programs. It produces and owns all of its broadcasts. In addition to broadcasting regular school events, Wazoo also organizes and produces its own branded events.

This past season, Wazoo broadcast 90 games – with one game having more than 30,000 viewers. It plans to broadcast more than 250 games this season.

For information on the two venture funds, visit www.meritusventures.com and www.southappfund.com, or call Ray Moncrief at 606-864-5175.