

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

KHIC—WORKING WITH OTHERS TO IMPROVE SOUTHEASTERN KENTUCKY

As our Fiscal Year comes to a close, we would like to highlight some of the events that took place during the year.

MID SOUTH REBOUNDS - WITH STYLE



Pictured above is the Midsouth plant after the fire.

It looked as though it would be a devastating loss for the Jackson County community when fire gutted the Mid South Electronics building in January in Annnville, Kentucky. The company employed nearly 700 people in the community. The building was a total loss, with the majority of the inventory, equipment, tooling etc. damaged or destroyed by the fire. The effects of the fire were felt nationwide with layoffs at other plants which were supplied products by Mid South.

But Jerry Weaver and his family, the owners of Mid South, and others in the community, including Kentucky Highlands, banded together to find a solution. And a solution they found. Only eight days after the fire, Michael Hayes, a KHIC employee, prepared and submitted a \$7.75 million KREDA application on behalf of Mid-South. The Kentucky Economic Development Cabinet approved the KHIC prepared KREDA application for the company, which allowed Mid-South to buy the spec building located in the Industrial Park. In addition, Kentucky Highlands assembled the financial package for Mid-South Electronics reopening, including providing \$4.9 million in direct loans and securing almost \$3 million in loans from other lenders.

Mr. Weaver said, "We received assistance from several different agencies during this trying time. Michael Hayes of KHIC was extremely helpful in generating loans for us, completing the KREDA application, etc. It's wonderful to know that there are people out there that will apply that much energy to our needs on such a critical basis. We really appreciate it."

And in less than four weeks, the company was able to call more than 600 workers back to work.

In April, Mid South was awarded a contract to manufacture airport screeners. The high tech baggage screening systems were developed by Reveal Imaging Technologies- Bedford, Massachusetts and Mid South workers will assemble some 100 explosive detection systems machines. These machines will be deployed at commercial airports around the world. The first machine should roll off the assembly line in late July. Congressman Hal Rogers, who was on hand for the announcement at the plant in Annnville, said, "These smaller machines at half the cost will enable us to put them behind the counter when you buy your tickets and use the take out conveyor belt as the inline system, saving the cost of having to remodel the airport."

How can a company suffer such a devastating blow and within less than four weeks be back in production AND a few months later be awarded a contract for a new product? For some this story is hard to believe. For others, those of us who live and work in communities just like this one, we know that it is times like this when we all pull together and do what it takes to keep on going. Perseverance, strength, determination, people who care and people who believe — that's all it takes.

Mr. Jerry Weaver describes it best when talking about locating his plant in Jackson County. He said, "Hundreds of years ago when the industrial base of the country was in the North and in the Midwest, the labor force for those companies came from the Appalachian regions. Those workers, their work ethic, caused the country to excel. Kentuckians were in the frame of mind that 'we have to leave here to get work'. And so they did". "Now", Weaver says, "large companies need to be more open minded. The workers are here. The same kind of workers that caused the companies in the North and the Midwest to boom are here in Appalachia. They're here in Kentucky. We just need to bring the jobs to them." And Mr. Weaver we are glad that you did!

KHIC'S ANNUAL BOARD TOUR HIGHLIGHTS JACKSON COUNTY



KHIC Board of Directors, Staff and Invited Guests enjoyed the day in Jackson County.

In April, 2005 several Kentucky Highlands Investment Corporation's board members, staff and invited guests boarded a bus and headed to Jackson County. The purpose for this trip was to visit companies in which Kentucky Highlands had made an investment. We wanted to see how our little pieces of the puzzle fit into the big picture.

We began the day by visiting the Horizon Adult Day Center in McKee. The center allows people to continue working while their loved ones receive daytime care. The center also provides the services found in a typical nursing home, during daytime hours only, such as physical, occupational and speech therapy, case management services, recreation activities coordinated by professionals and nutritious meals and snacks. Horizon Adult Day Center is managed by American Health Management Inc. Kentucky Highlands has provided funding, technical assistance and management assistance to this company since its inception in 1997.

The group then left the adult day center and traveled across the street to Opal's Restaurant for lunch. During lunch, Mary Purkey, Jackson County EZ Director welcomed the group to Jackson County and informed the group of the improvements in Jackson County since the Empowerment Zone came about. She mentioned several things such as the unemployment rate dropping from more than 23% in the mid 80's to 2.8% (December 2004). The rate is well below the state and national average.

After lunch, the tour headed up Education Mountain Drive where we toured the new vocational school which opened in 2002. School Board Superintendent Ralph Hoskins and Principal Lonzo Moore welcomed us to the school. We then received a tour of the Community Theater in the vocational school.

The group then headed to Tyner and toured Flat Rock Furniture. Flat Rock Furniture is the world's leading maker of hand crafted furniture made of solid hickory. The furniture is made in Waldron, Indiana and Tyner, Kentucky by skilled craftsmen and sold through the nation's finest designers and retail stores. The company employs about 50 people today.

We left Flat Rock Furniture and traveled to the Jackson County Regional Industrial Park where we visited Phillips Diversified and Mid-South Electronics. After visiting these companies we traveled back to London for the April Board Meeting.

FROM THE DESK OF JERRY RICKETT...

This past fiscal year Kentucky Highlands Investment Corporation invested \$13.3 million and leveraged another \$9.0 million from other sources. We closed 71 loans to 61 businesses and 11 loans to farmers. At March 31, 2005, our fiscal year end, KHIC investee companies employed a total of more than 9,700 persons.

Kentucky Highlands cares about the community. The message that the Mid-South story relays is the same across the board. Jobs are important to our communities and the people in our communities depend on the livelihood that those jobs bring. The community (Jackson County) pulled together when it looked as though there was no light at the end of the tunnel. Kentucky Highlands took part in that teamwork because we knew how important those jobs were. We are working to make a difference and I hope that after reading this newsletter you will see that we are making a difference in southeastern Kentucky.

Jerry Rickett

Jerry Rickett
President & CEO
Kentucky Highlands Investment Corporation

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

KENTUCKY HIGHLANDS SPONSORS APRIL MEETING OF THE VENTURE CLUB OF LOUISVILLE



KHIC Officers: Elmer Parlier, Ray Moncrief & Jerry Rickett, welcome Dr. Lee Todd, President of the University of Kentucky, (third from left) to the April 2004 Venture Club of Louisville meeting.

The April 2004 meeting of the Venture Club of Louisville was sponsored by Kentucky Highlands and the six-year-old club reported record attendance. The location was the Seelbach Hotel where the club has met since inception. In late 2004 the club moved its meeting place to the Jefferson Club in the PNC Building in downtown Louisville. The club meets the first Wednesday of each month and provides a forum for entrepreneurs to pitch their deals to potential

investors. Club membership, mainly made up of Louisville people who are interested in venture investing, includes members from throughout the Commonwealth as well as Indiana and Ohio.

The club, founded in 1996, has about 125 members and monthly attendance of about that many. The meetings provide networking opportunities for entrepreneurs and investors. Elmer Parlier, Vice President/Investments for KHIC, has been a member of the Board of Directors of the club for several years.

The guest speaker for the April 2004 meeting, invited by Kentucky Highlands, was Dr. Lee Todd, President of the University of Kentucky. Dr. Todd is a lifetime entrepreneur who has solid experience in the academic world. Kentucky Highlands is proud to have been an investor in his venture, DataBeam, a white-board teleconferencing company that was founded in 1988 and sold to Lotus in 1999. It was a very successful venture.

Kentucky Highlands, including its ownership of Mountain Ventures, an SBA-licensed small business investment company and Southern Appalachian Fund, an SBA-licensed new markets venture capital fund, has in excess of \$50.0 million under management and makes venture investments through Kentucky and Tennessee and the northern parts of Georgia, Alabama and Mississippi.

CLASSIC CUTS



Melissa Conn, Investment Analyst with KHIC, is shown here with Shena Reece, owner of Classic Cuts.

In June 2003, the Kentucky Highlands Investment Corporation's Board of Directors voted to expand the service area to include a total of twenty two counties. One of those counties was Lee County. And in March, 2005 we closed our FIRST loan in Lee County.

Classic Cuts is owned and operated by Shena Reece. Ms. Reece is a licensed cosmetologist who had been self employed for about one year before coming to KHIC for a loan. KHIC was able to provide Ms. Reece with a SBA Microloan which enabled her to purchase a mobile home for her shop and locate that home on a prime rental lot in Beattyville. Ms. Reece has also installed a tanning bed in her shop which she believes will bring additional customers to her business. We wish Ms. Reece the best of luck with her business!

SAF UPDATE



Pictured are left to right: Ray Moncrief, Fund Manager for SAF; and Grady Vanderhoofven, Assistant Fund Manager for SAF.

The Southern Appalachian Fund is a New Markets Venture Capital fund formed to provide equity capital and operational assistance to qualifying companies in "low income" census tracts located in Southern Appalachia. Kentucky Highlands Investment Corporation of London, KY and Technology 2020 of Oak Ridge, TN joined forces to establish the SAF as a source of equity capital for the region.

To date, SAF has invested \$3.2 million in nine financings to six companies with at least four new companies (three in Kentucky) in the due diligence process.

The latest investment for SAF was Eon Streams of Knoxville, TN. Eon Streams is a company that streams both radio and television over the internet with a proprietary technology to insert advertisement in the related stream.

KHIC WELCOMES NEW BOARD MEMBERS



Pictured are Jerry Rickett, President and CEO of KHIC; Ken Catron, new board member; and Janie Carter, Vice Chair of KHIC Board of Directors.

Kentucky Highlands Investment Corporation elected two new board members this past year, Mr. Kenneth Catron and Mr. Billy Bertram.

Kenneth Catron was born in Wayne County, Kentucky. Following high school he served two (2) years in the U.S. Army, stationed in Germany.

He spent ten (10) years in Champaign, Illinois with the nation's largest chain of dry cleaners at the time, serving as district supervisor. Upon his return to Monticello, he opened a small chain of five dry cleaners in the southern Kentucky area, of which he still owns and operates three.

Mr. Catron served three (3) terms on the City Council, seventeen (17) years as Mayor of Monticello, and is presently associated with Heartland Funeral Home in Monticello. He has served as Chairman of the Lake Cumberland Area Development District, President of the Wayne

County Industrial Foundation, Inc, President of the Monticello-Wayne County Chamber of Commerce, Chairman of the Wayne County EZ Community Inc and has served on many state, regional and local committees.

"I am pleased to serve on the board of directors for an organization like Kentucky Highlands Investment Corporation. I understand that people must work together to get things done and I look forward to doing my part to help Southeastern Kentucky," said Catron. Catron and his wife, Betty, reside in Wayne County, KY and have three children.

Billy G. Bertram, also a resident of Wayne County, was seated on the board of directors in December 2004. "Billy is a welcome addition to our board," said Jerry Rickett, president and CEO of KHIC. "His commitment to the area is exactly what Kentucky Highlands is all about."

Bertram graduated from Wayne County High School and then became a part time employee at Winn Dixie in Somerset. In June 1973, he was promoted to full time and currently works in Frozen Foods.

"I am happy to serve on the board of directors for Kentucky Highlands Investment Corporation. I look forward to helping Southeastern Kentucky," said Bertram.

Chairman Bill Singleton said, "Our board members have deep roots in the community. Mr. Bertram is just one example of that. We want people who are active and involved in the community and who want to make a difference. We feel Billy will do just that. We are fortunate enough to have Billy on the Empowerment Zone Loan Committee as well as our Board of Directors." Bertram and his wife, Debrah, reside in Wayne County, KY and have two children.

TRI-COUNTY MANUFACTURING AND ASSEMBLY, INC. (TCA)

Tri-County Manufacturing and Assembly, Inc. (TCA) is a company that has seen its share of ups and downs. The company, located in Williamsburg, Kentucky, was primarily a contract manufacturer of printed circuit board assemblies. After surviving a very difficult period in 2002, it seemed that TCA was on the upswing when its original owners returned to manage the company. The company fared well for awhile, but faced new and difficult challenges in 2003 that nearly brought the company's demise. With almost 200 manufacturing jobs at stake, Kentucky Highlands sent staff members Elmer Parlier and Melissa Conn to work on-site at TCA to stabilize the company until new owners could be found. In January 2004, electronics manufacturer CDR Manufacturing purchased the assets of TCA and began operating the plant in Williamsburg as its own.

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

TAXI PLEASE...



Owners of Clinton Transport:
Susan Griffith and Richard Pennycuff

Clinton County has had a taxi service for over 15 years. However, the owner of that business recently decided that she would be retiring and possibly closing the business. That would mean that approximately seven people would be without a job. One of those would be Richard Pennycuff.

Richard Pennycuff and his wife, Susan Griffith, decided to purchase the taxi business from the owner. One roadblock stood in their way. A big roadblock. Money.

Enter Kentucky Highlands Investment Corporation.

Ms. Griffith contacted Melissa Conn here at KHIC and Melissa began working with the couple to explore the possibility of KHIC financing the business. In December 2004, KHIC closed a loan to the new company, Clinton Transport, Inc. This loan was made in conjunction with a loan from Mountain Association for Community Economic Development (MACED). The financing from KHIC and MACED allowed Clinton Transport, Inc. to purchase the business assets of the old company and continue running the business without missing one day of operation.

And today Clinton Transport, Inc. is running strong. Those seven (7) employees still have their job and Clinton County still has their taxi service.

MOUNTAIN PHYSICAL THERAPY, PLLC SUCCESSFUL IN EASTERN KENTUCKY

When Morgan Hooker moved back to eastern Kentucky after earning his physical therapy degree at the University of Kentucky, he was glad he could help area residents. Morgan began working at two part-time physical therapy clinics, but quickly realized the need for a full-time clinic in the Owsley and Lee county areas.

After drafting his business plan, Morgan approached Kentucky Highlands for financing for his own full-time physical therapy clinic in the town of Booneville in Owsley County, Kentucky. Kentucky Highlands partnered with Mountain Association for Community Economic Development to provide equipment and working capital financing, and helped Morgan open Mountain Physical Therapy in October 2003.

Morgan's hunch was correct. The area badly needed a full-time physical therapy clinic. Mountain Physical Therapy has done very well since its opening. Morgan has seen hundreds of patients and feels his decision to return home after college was a good one, saying, "I'm glad I started Mountain Physical Therapy. We serve many people, fulfilling physical therapy needs that might otherwise go unmet if we weren't here."

Melissa Conn, Investment Analyst at Kentucky Highlands, has worked with Mountain Physical Therapy since its inception and says, "We're very proud of Morgan and his staff. He's proven himself to be an exceptional entrepreneur with a strong commitment to eastern Kentucky."



Pictured from left to right are the Mountain Physical Therapy staff: Dottie Turner, Morgan Hooker, and Toi Leigh Barrett.

KHIC TO OFFER LOANS TO EXPAND ACCESS TO RURAL HEALTH CARE

Congressman Hal Rogers recently announced that Kentucky Highlands Investment Corporation (KHIC), based in London, had received approval from the U.S. Department of Treasury to secure up to \$22 million in private sector investments that will be used to improve health care opportunities in rural Kentucky.

"Expanding access to health care is one of the most important things we can do to improve the quality of life throughout rural Kentucky," said Rogers. "My hope is that we can one day expand services enough so that people can get the medical treatments and services they need close to home rather than having to drive to Lexington, Louisville, or Knoxville." Rogers added, "Over the last 37 years, KHIC has made a tremendous impact in our region through its many valuable economic development initiatives. The funding obtained through the New Market Tax Credit program will enable KHIC to further those efforts."

The goal of the New Market Tax Credit (NMTC) Program is to bring private-sector investments into urban and rural low-income areas to help finance community development projects, stimulate economic opportunity, and create jobs in areas that need it most. The NMTC Program allows participating individuals, banks, and financial institutions to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities such as KHIC. In this case, KHIC has received permission to obtain up to \$22 million in investments, which will then be used to provide low interest loans to healthcare-related businesses with the goal of improving access to healthcare in rural Kentucky.

"Kentucky Highlands Investment Corporation's New Markets Tax Credit Program will significantly enhance its ability to serve a particularly underserved market," said Jerry Rickett, President & CEO of KHIC. "According to a recent report by the University of Kentucky Center for Rural Health, healthcare providers indicate that it is extremely difficult in many of the targeted counties and nearly impossible in some to secure affordable financing for healthcare clinics, hospitals and other healthcare related facilities. The investment incentive offered by the New Markets Tax Credit will enable Kentucky Highlands by working with local financial institutions to offer affordable financing that it would otherwise be unable to do with traditional forms of capital lending."

KHIC serves twenty-two counties in southern and eastern Kentucky. All of those counties are federally designated as medically underserved areas and sixteen of those counties are federally designated health professional shortage areas. These designations mean that access to primary medical and preventative services is inadequate or that the health status of these counties or their sub-populations exhibit health disparities.

Investing in our communities (FY 2005 stats)

Dollars Loaned	\$12.4 million
Equity Invested	\$.9 million
Total Investments	\$13.3 million
Leveraged Funds	\$ 9.2 million
Number of loans	71 loans to 61 businesses plus 11 loans to farmers

TOTAL EMPLOYMENT AS OF MARCH 31, 2005: 9,757

KHIC AGRICULTURE MICROLENDING PROGRAM PRESENTED IN OREGON



Left to right is Edgar Davis and Gene Bundy at the AEO Conference in Portland, Oregon.

Gene Bundy and Edgar Davis of KHIC were recently selected as presenters at the Association for Enterprise Opportunity (AEO) Annual Conference in Portland, Oregon. Mr. Bundy and Mr. Davis were asked to speak about the Agriculture Microlending Program developed here at Kentucky Highlands Investment Corporation. That is a program whereby SBA Microloan Program dollars and Kentucky Phase I Tobacco Settlement money were pooled

together to develop a fund for farmers. The farmers have to live in a 12-county service area within Kentucky. The maximum loan amount is \$35,000 and can be used for equipment, inventory, working capital, production costs, etc.

AEO is the national association of organizations committed to microenterprise development. AEO provides its members with a forum, information, and a voice to promote enterprise opportunity for people and communities with limited access to economic resources. The annual conference was attended by over 650 individuals.

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

SINGLETON WINS GOVERNOR'S VOLUNTEER AWARD



Left to right is Kentucky Governor Ernie Fletcher, Elizabeth Singleton, and Marla Montell, Commissioner of Human Support Services

Elizabeth Singleton was awarded the **"IMPACT YOUTH AWARD"** by Governor Ernie Fletcher at the 2004 Governor's Volunteer Awards ceremony at the state Capitol building in Frankfort on April 21, 2005.

While attending a People to People International Youth Forum in Washington, DC, 12 year old Elizabeth was inspired to make a positive impact on her community. She founded "Elizabeth's Dictionaries for Kids" with a goal to provide a dictionary to every third grader in McCreary County. She set out to raise the necessary \$2,556.80 needed to reach that goal and netted more than \$4,800.

Her father, Bill Singleton, Chairman of KHIC Board of Directors, said, "We are extremely proud of Elizabeth. She wants to make a difference in her community and in the lives of these young people."

Elizabeth's project has received national recognition as well. Ms. Singleton was recently named a finalist for the Prudential Spirit of Community Award for 2005. This program is a nationwide program honoring young people for exemplary acts of volunteerism. The awards program is conducted by Prudential Financial, Inc. in partnership with the National Association of Secondary School Principals (NASSP).

"HOME SWEET HOME" MADE POSSIBLE BY PARTNERSHIP



Carol Peterson, Vice President of Federal Home Loan Bank of Cincinnati congratulates the Bryant family on their new home.

Most of us take home ownership for granted. However, for the Bryant family of Mud Creek in southern Whitley County, that won't happen. Their home ownership would not have been possible without the partnering of several local — and long distance — partners.

The Federal Home Loan Bank of Cincinnati, Kentucky Highlands Investment Corporation, Cumberland Valley Bank and Trust, Kentucky Mountain Housing Development Corporation and Mountain Outreach worked together to make it possible for this family to have a home.

For two decades, Mountain Outreach, a ministry of Cumberland College has been building houses for under-privileged members of the community. However, this year, one house will be a little different.

With a \$50,000 grant awarded July 2003 from the Federal Home Loan Bank of Cincinnati, joint applicants Kentucky Highlands Investment Corporation and Cumberland Valley National Bank set out to test a modular housing component idea (the Core) and provide down payment assistance to at least three low-income families.

Prefabricated offsite by Kentucky Mountain Housing Development Corporation, using standard materials and construction methods, the Core contains the mechanical heart of a home including all plumbing, electrical panel with major circuit legs and an in-line water heater which delivers a never-ending hot water supply. After the Core was finished, it was towed to the home, and set into place. The rest of the house was built around the Core, which con-

tained a finished bathroom, kitchen and laundry room. The plumbing and electrical lines were easily connected, leaving the most difficult part of the house easily completed.

When asked if he was pleased with the Core, David Honeycutt, director of Mountain Outreach said, "I've already placed an order for one for next year and the crew that built the house has requested to build the next house using the Core." The housing Core saves time and simplifies construction for Mountain Outreach which depends upon volunteers to build each house from foundation to finish trim.

Carol Peterson, Vice President of Federal Home Loan Bank said, "It is an honor and a privilege to be involved in such a project. Partnering with Kentucky Highlands Investment Corporation, Cumberland Valley National Bank and Trust and Mountain Outreach has touched the lives of this family and we hope will touch the lives of many others. We want to work together to provide affordable housing for Appalachia Kentucky and I think we are on the right track."

FOOTHILLS ACADEMY, INC.

It's a dream that has come true and is really making an impact. Judge Jeff Choate, former District Judge for Clinton, Russell and Wayne counties, had the responsibility for most juvenile/custody cases in the area. Judge Choate once felt he had no place to house juveniles that came to his court. These young people came from abusive situations at home, had run away, or had parents that may have drug or legal problems or who simply needed to get out of the situation they were in.

In 1995 Judge Choate conceived the idea of a group home in Clinton County that would be privately-run by a local nonprofit board, but supported through a contract with the Kentucky Cabinet for Families and Children and the Kentucky Department for Juvenile Justice.

In 1999 a location became available and in January 2002 FOOTHILLS ACADEMY began leasing the facility from the Commonwealth of Kentucky. Foothills Academy is home to 72 youths, ages 12-17. The young residents work, study, eat, sleep, exercise and share counseling all in groups of 12. The groups, each under the supervision of a staff counselor, encourage a sense of identity, belonging, and safety in youngsters who have had little structure and security in their lives.

A third cottage was recently opened on the campus and houses 24 young men. All of the residents at Foothills make a contribution. Some of the residents attend local churches, some are taking college courses. Foothills recently won a grant from Congressman Hal Rogers' PRIDE program (Personal Responsibility In a Desirable Environment), which involves environmental cleanup, trail preservations, water testing, and similar activities.

Kentucky Highlands Investment Corporation provided some funding for this project, but had many other partners along the way. Those partners include the Clinton County Empowerment Zone Board, Federal Home Loan Bank of Cincinnati, Clinton County Industrial Development Authority and The Center for Rural Development. Also, the Clinton County Board of Education provides full-time classroom teachers onsite.

Ten years in the planning — now a product of extraordinary cooperation among many individuals and agencies. A product for some extraordinary kids.

KHIC SAYS GOODBYE TO LONG TIME BOARD MEMBER

The Kentucky Highlands family suffered a major loss this past fiscal year. Arvel Evans of Jackson County served on the board of the directors for 30 years, before passing away this past fall. He was born and raised in Jackson County and was a retired farmer and laborer for the Kentucky Highway Department. Arvel enjoyed fishing and beekeeping.

Evans once said, "Everyone at Kentucky Highlands works together, staff and board members. We are interested in making loans to companies to hire more people in the community. I am happy to be a part of such a group."

The Jackson County EZ Board recently established a scholarship fund in Arvel's honor and awarded scholarships to the first recipients in April.

Arvel will certainly be missed by all who knew him.



Arvel celebrating his 30 years as a KHIC board member.