

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

Investing with Vision

KHIC: Touring Eastern Kentucky

When tourists visit southeastern Kentucky, they want to hike in the Appalachian Mountains, tour Colonel Sanders' original restaurant, see the Civil War re-enactment of the Battle of Mill Springs or visit the country's largest historical park, Cumberland Gap National Historic Park.

But when individuals committed to improving the lives of southeastern Kentuckians tour the region, they want to see progress. And so, Kentucky Highlands Investment Corporation's Board of Directors, staff, special guests and myself recently visited five intriguing sites to see that progress—thanks, in part, to KHIC—firsthand.

Wayne County—ASPIRE Center:

We left London to visit the first of five stops—the ASPIRE Center in Wayne County. There, we were welcomed by Gale Edwards, the executive director of the Wayne County EZ Community, Inc. He spoke with us about the facilities available to the public. The center now contains a multi-purpose gymnasium, an activity room and a walking track. It also has the only public swimming pool in Wayne County.

Kentucky Highlands Empowerment Zone (KHEZ) provided \$1.6 million to the ASPIRE Center, a success we are very proud of.

Clinton County—Foothills Academy:

After our visit at the ASPIRE Center, we made our way to the Foothills Academy in Albany. Foothills Academy is home to at-risk young people from the region and the state. The residents are recommended to Foothills Academy by the Kentucky Department of Juvenile Justice. We were greeted at the academy by Director George Page and Robin Choate, vice chair of the board of Foothills Academy. We toured the facility, led by several of the residents, and were then treated to a delicious lunch.

Previously federal confiscated property, the Foothills Academy was established in 2002. District Judge Jeff Choate wanted a facility in Clinton County to house juvenile delinquents instead of sending them across the state. He approached the Clinton County EZ Community and received \$350,000 in EZ funds as seed capital to start the facility. Later, KHEZ provided Foothills Academy a \$100,000 working capital loan through the Development Venture Fund, and KHIC staff are currently working with the academy and the Federal Home Loan Bank of Cincinnati on an Affordable Housing Program grant to construct a third cottage for residents at the Academy.

Hopkins School:

Next, we briefly visited the Hopkins School. Dr. Paula Little, Charlene King, Brenda Sexton and Norma Jean Hunter led the tour of the one-room building where as many as 60 students in eight grade levels studied together. It was built in the early 1900s and was used until 1961. The



Those board members participating in the tour included William Singleton, Eldred Musgrove, Arvel Evans, Robert Druin and Serena Stratton. Special guests on the tour: Lonnie Lawson, Director of the Center for Rural Development, Somerset; Rebecca Webster, Field Representative for Senator Mitch McConnell; and Leann Boling, Field Representative for Senator Mitch McConnell.

school sat empty for more than three decades. Then, in 1997, the Clinton County EZ Community, Inc., in cooperation with the Clinton County Schools and the Kentucky Heritage Council, restored the school. The actual classroom setting – complete with original desks, books, outhouses and a single-wood stove – has been preserved as a living museum. The school is open daily for tours and can be rented for special occasions.

Clinton County 21st Century Learning Center:

A couple of doors down on Route 127, we made our way to the Clinton County 21st Century Learning Center. Ms. Charlene King served as the tour guide, showing us the library, classrooms currently used by Western Kentucky University, Campbellsville University and Somerset Community College, and a state-of-the-art auditorium with a seating capacity of 478.

Horizon Adult Day Center:

Again, we boarded the bus and headed this time to our final destination—Horizon Adult Day Center in Albany. After being welcomed to the center by President Kelly Upchurch and staff, we visited and talked with many clients at the center. The Horizon Adult Day Center allows the primary caregiver the opportunity to continue daily activities while knowing their loved one is in a safe and socially stimulating environment. The center

offers the opportunity for clients to participate in arts and crafts, music, field trips, and other interesting events.

KHIC Investing

The tour gave us some insight on the progress we're making in two communities of southeastern Kentucky. The impact we're making in all southeastern Kentucky communities is outstanding. KHIC invested more than \$8 million in fiscal year 2003 and helped bring in another \$15.3 million from outside investments, providing 42 loans to 32 businesses and 16 loans to farmers. At our fiscal year end, KHIC investee companies employed more than 7,500 Kentuckians.

The funding we've provided is improving the lives of people from all walks of life. Children have a place to swim in Wayne County. At-risk youth have a place to turn for guidance. Our adults have access to improved technology and education. Our elderly have a place to go for recreation and activity. And our ancestors' work has been restored.

At Kentucky Highlands Investment Corporation, we're in the business of investing. We invest in our communities.

Jerry Rickett

Jerry Rickett
President & CEO
Kentucky Highlands Investment Corporation

KENTUCKY HIGHLANDS INVESTMENT CORPORATION

Alliance Helps KHIC Help Region

Kentucky Highlands now has more resources to put to work for its clients. About three years ago it joined seven other Eastern Kentucky regional economic development organizations to found the Appalachian Development Alliance. In May, the state agreed to make the Alliance a \$1 million forgivable loan to lend to businesses.

"It's a momentous occasion," said KHIC's Stephen Taylor, secretary/treasurer for the Alliance. "By partnering, Alliance members will share the risk of loans with each other, providing affordable money to Eastern Kentucky businesses throughout our region."

The Alliance has been in the works for almost three years, with Governor Patton committing to the project after a formal presentation in October 2000. The \$1 million loan, from coal severance money, will come through the Department for Regional Development and be available to businesses in Eastern Kentucky's coal-producing counties.

Certain requirements had to be met to leverage the state's money. Each member had to contribute \$50,000 into a loan loss reserve account, and the Alliance has to raise another \$1 million in 10 years.

When available in June, Alliance members will have access to funds to use at their discretion with clients, as long as the member pays back the Alliance. Multiple members can participate in the same deal, each borrowing to spread the risk. In addition, the client will only have to deal with one member as point of contact, easing the administrative burden.

"It's about thinking regionally," Taylor said. "By sharing the risk—and the deal—we work together to improve the region."

Taylor said an example of that partnering is the fact that the money will be deposited at the credit union of Appalbank, an Alliance member.

"In fact, our partnerships began long before the Alliance was a reality," Taylor said. "Kentucky Highlands has worked with a number of these economic development groups before. We have developed trust in one another through these informal partnerships that have always existed. We're now cementing our efforts to work together through the Alliance."

Alliance members have 140 years of combined experience among them. The previous decade saw the eight organizations loan a total of \$75 million, with \$350 million in private funds invested. The group can take credit for creating or saving 14,500 jobs in the region.

And "region" is the key, Taylor said.

"A recurring theme, from the governor to East Kentucky Corporation's Tom Jones to Kentucky Highland's Jerry Rickett, is to think regionally," he said. "Kentucky Highlands and the others are moving beyond county lines to improve the lives of all Eastern Kentuckians."



Seated left to right: Paula Bowman of Appalbank (Vice President for the Alliance); Greg Jones of Southern Kentucky Economic Development Corporation (President for the Alliance); Stephen Taylor of Kentucky Highlands Investment Corporation (Secretary/Treasurer for the Alliance).

Standing left to right: Tom Jones of East Kentucky Corporation; Justin Maxson of Mountain Association of Community Economic Development; Paul Pratt of Pine Mountain Community Development Corporation; Gary Thor of Mountain Economic Development Corporation. Community Ventures Corporation did not have a representative present.

Loan for Print Shop Was "Ideal"

A stagnant economy. A war in Iraq. It's hard to believe that any company could experience growth in these times. But for one small business in Middlesboro, the time for growth is, well, ideal.

From paper to trophies to shirts, there isn't much that the Ideal Print Shop can't do. With funding from KHIC, the small commercial printing company is seeing big results.

When Shawn Collins, the company's owner, approached KHIC about funding, he was looking to expand his business. KHIC offered a loan to the Ideal Print Shop at a competitive rate. The money allowed Ideal to move from a building of 2,400 square feet to a building three times as large.

It also gave the print shop some working capital.

"The money that KHIC loaned us has opened a lot of new avenues," Collins said.

The avenues he's referring to? New services like trophies, silk screening and embroidery.

"The company has experienced tremendous growth since KHIC got involved," Collins said. "We don't just print on paper anymore. If it can be printed on, we can do it."

The one-stop printing shop has grown from an annual revenue of \$18,000 to \$500,000 since its beginning in 1988. The company employs eight people and is planning to hire two more in the near future.

"We just bought the trophy shop, and we're already getting business lined up," Collins said. "The future looks promising."



The Bell County Chamber of Commerce has again named Jennifer Jones its Bell County Leader of the Year. Jones, a former judge-executive of Bell County, serves the region on Kentucky Highlands' Board of Directors.

"This is a well-deserved honor," said Jerry Rickett, KHIC's president. "I'm especially proud that Jennifer won this

award after leaving her elected office. This isn't token praise of a public official. The community knows Jennifer has worked hard to move Bell County forward."

Investing in our communities (FY 2003 stats)

Dollars loaned:	\$7,669,769
Equity invested:	\$610,000
Total investments:	\$8,279,769
Leveraged funds:	\$15,341,435
Number of loans:	42 loans to 32 businesses plus 16 loans to farmers
Total employment as of March 31, 2003:	7,465

KENTUCKY HIGHLANDS INVESTMENT CORPORATION



Andrew Adams

"It was a journey and an adventure for Andrew to serve on the board at Kentucky Highlands, and he loved every minute of it," Adams' wife Sandra said.

Greatly Missed ...

It takes special people to serve on the board of Kentucky Highlands Investment Corporation (KHIC). These people are committed to helping southeast Kentucky grow and prosper economically. They spend hours working diligently to help people excel and achieve their full potential.

Recently, KHIC lost one of these special board members. Andrew Adams died February 22. His hard work and commitment will be missed by all at KHIC.

"Andrew was a wonderful board member," said Jerry Rickett, president of KHIC. "He was excited about KHIC and was an integral part of our system. More than that, he was a great friend."

Adams served on the board of directors at KHIC for 22 years.

"It was a journey and an adventure for Andrew to serve on the board at Kentucky Highlands, and he loved every minute of it," Adams' wife Sandra said. "He liked what Kentucky Highlands was doing for the community, and he liked being a part of Kentucky Highlands."

Adams was a native of Letcher County. He attended Alice Lloyd College for a year and graduated from Cumberland College in 1969 with a Bachelor of Science in Business/Accounting.

Employed by the City Utilities Commission of Corbin for 18 years, he worked as an accounting manager and assistant general manager.

His active role in the community provided many resources for KHIC. He served on the board of directors for the Corbin Kiwanis Club. From 1982 to 1983 he served as the president of the Kiwanis Club. During his term, the club won the I.O.P.E. award, and Adams, the Distinguished President award.

"Adams is missed daily," Rickett said. "His work made such a difference, but his work hasn't stopped since his death. The contacts and resources he provided for KHIC help us help others continuously. We are all better for knowing him."

Seeing the Vision Through

The term "adult day health care" typically brings to mind visions of linoleum floors, old televisions and musky rooms.

But in southeast Kentucky, a man with a different vision for adult day care is succeeding in changing that image.

Kelly Upchurch, president and CEO of American Health Management, started out in health care administration. A psychologist by training, he spent seven years supervising large numbers of people in a rehabilitation company. Serving as the interim director, he quickly saw a problem with many of his patients: After they left the hospital as in-patients, they had no place to go to receive medical care during the day.

The search for an alternative to nursing homes began. Upchurch wanted to find a place where families could leave their loved ones for the day, know that they were being taken care of and take them home at night.

"I visited a few adult day centers," Upchurch said. "They weren't as nice as I anticipated, but they had potential. There were things I could work with and improve upon."

Upchurch considered the idea for about a year. Finally, he decided that he would quit his job and work on his vision of a quality adult day center.

"I had heard of the Empowerment Zone in about 1995," Upchurch said. "I talked to the local coordinator of the Empowerment Zone in Clinton County. He gave me the rundown, and I set up a meeting with Michael Haycs."

Upchurch had the experience he needed to run the facility. The only thing he lacked was assistance in obtaining loans and working out the business aspect of his plan. Kentucky Highlands was eager to help.

"KHIC helped with the business aspect of American Health Management," Upchurch said. "They helped me write a business plan, obtain loans and talk to local leaders, and they introduced me to people that could help me get my business up and running."

In 1996, the first adult day center opened in

Clinton County. The seventh center will open in about a month in Rockcastle County. The centers are all in rural areas, including Clinton, Wayne, Bell, McCreary and Rockcastle counties, as well as Hazard and Harlan.

"The rural communities typically get really good health care ideas last," Upchurch said. "We think this is a tragedy. So, we've been dedicated to improving the quality of health care in southeastern Kentucky."

The adult day centers provide health care during the day. Most of the patients have dementia-related problems, such as Alzheimer's disease. The average age of the patients is 79, and the average number of medications a patient takes is 14.4 per day. With a staff of about 70 employees, mostly nurses and nurses' aides, American Health Management stays busy.

And not only does the staff provide quality health care to adults, they also provide fun activities for them.

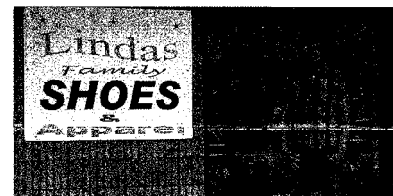
"It's not uncommon to see a quilt rack and three or four patients working on the quilt together," Upchurch said. "We try to find out what the patient liked to do prior to their illness or accident and encourage them to continue it. Some of our activities include specially designed equipment, such as larger quilting needles, to meet the needs of our patients."

The facilities that American Health Management has opened are far from the typical idea of adult day centers. They provide quality health care and fun activities in an environment similar to a home.

The vision borne by Kelly Upchurch in the mid-1990s has finally come to fruition and is continuing to grow.

"I don't know if Kentucky Highlands anticipated this much growth when we started," laughed Upchurch. "I'm on the phone with them a couple times a week, talking about new ideas and plans. We've really enjoyed our partnership."

Upchurch is looking forward to opening his seventh center in Rockcastle County around July 1.



New Face in an Old Place

Just off the Daniel Boone Parkway on Highway 421, across from the Paces Creek School in Clay County, sits Linda's Family Shoes. It's a four-year-old organization made possible by a woman's talent for retail and a little help from Kentucky Highlands Investment Corporation (KHIC). When the woman who previously owned the local used shoe store decided to get out of the business, Linda Hooker saw an opportunity to stop working for other retailers and become her own boss.

"I like having my own business," explained Hooker, who spent 10 years working at a local hardware store before buying the shoe store in November 1999. "I enjoy working with the public and with people, and that's what you have to do in retail."

Linda's Family Shoes, which employs one other full-time employee and occasional part-time afternoon help, initially followed in its predecessor's footsteps by selling used products. After about a year, however, Hooker decided to make the transition from used to new. The store now carries new shoes and sandals for men, women and children by brands like Adidas, Born, Doc Marten, Harley, Keds, Sketchers, Wolverine and others. It also sells handbags by brands like American Angel and Kacla & Stash, socks, and other accessories.

And that's where KHIC comes in. KHIC recently provided Linda's Shoes with a small Microloan to assist in purchasing new products and merchandise for the store.

"They were very nice to work with," Hooker said of the experience. "Kentucky Highlands provided the money I needed to take the store to

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KENTUCKY HIGHLANDS INVESTMENT CORPORATION

Protecting Our Soldiers from the Homefront

Southeastern Kentucky is offering more than soldiers to the U.S. military—it's offering the equipment that keeps those soldiers protected and supplied.

Southeastern Kentucky Rehabilitation Industries (SEKRI) opened its facility in Harlan County in 2000. The company makes chemical protection suits as part of a \$13 million, 15-year contract with the Department of Defense.

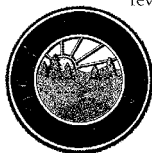
"It's been extremely busy," said Tom Fields, executive director. "We've been preparing for the war for months now."

SEKRI and the Department of Defense established an alert system several months ago so the department could contact SEKRI in the event of an emergency supply need.

SEKRI is the second largest producer of chemical suits in the country. It has five facilities in two states. With more than 30 active defense contracts, SEKRI employs about 550 people—and 75 percent of them come from the disabled community.

SEKRI is also the sole producer of three U.S. Marine Corp hats. The company has been involved in developing a wicking multi-layered cold weather system for the Special Operations Forces.

"This is a huge success story, for SEKRI and Kentucky Highlands," Fields said. "Kentucky Highlands helped SEKRI gain financing in the beginning when no one else would. That help has turned a bankrupt company into one with sales revenue of more than \$45 million a year."



Another Kentucky contributor to the efforts in Iraq is **Outdoor Venture Corporation (OVC)**. OVC makes military tents, employing 140 people in Steamers.

When the war started, there wasn't much difference in workload, according to J.C. Egnew, president. Once the war was underway, workload increased considerably, causing a doubling in the employee base.

"The company has a great responsibility to do our best to provide the shelter needs for our troops," Egnew said. "We're growing, which is great for Kentucky. We're getting ready to expand into another facility that will house 50 to 100 new employees from southeastern Kentucky." KHIC is assisting OVC with this expansion.

Also assisting the front line: **Specialty Plastic Products of Kentucky**. Formed in Jackson County in 1995, Specialty Plastics sewed components for military vests, headgear and similar accessories. Later, the Department of Defense contracted the company to produce a complex backpack and other products for the Marines.

"Business was somewhat flat, because during the war the direction is mainly focused on ammunition instead of backpacks and such," said Sean Martin, executive vice president, sales and

marketing. "Business will start to pick up now that the war is coming to an end—things will need to be replenished."

Another Kentucky patriot is **Patriot Industries**. Formerly known as Sports Products, the company has gone from producing soccer uniforms to military equipment.

"The sporting goods business is so cyclical—and competitive, due to foreign manufacturers," said Jack Mills, CEO. "We would be really busy all spring and summer, then slow down in winter. But our military subcontracting has increased and continues to do so."

Patriot Industries subcontracts, making parts for the other three companies. It also makes part for bulletproof vest makers in Tennessee and Florida.

"Since the war effort, we've seen a significant surge of requests for bids by the government," Mills said. "We're bidding on several contracts as the prime contractor. We see our business growing through military contracts."

The company also recently signed a five-year contract with the Air Force Academy to make the academy's athletic jerseys and shirts.

KHIC assisted the employer of 100 by providing working capital and management assistance to the company.

"Though it might be from the southeastern hills of Kentucky, these four companies are protecting the Americans that fight to defend our freedom," KHIC President Jerry Rickett said. "At KHIC, we are making a big difference throughout the world by taking small steps to help these companies."



Black Mountain Television Now Poised for Growth

It was a natural fit for Vernon Engle to purchase the cable television system in Lynch. His father was one of southeastern Kentucky's first cable operators, and Engle himself worked on telecommunications towers throughout the country.

And it was a natural fit for Kentucky Highlands Investment Corp. to help the business grow with a Microloan.

Work that Engle performed in 1998 on Lynch Television's tower led to a relationship where the company relied on Engle's expertise. After a series of improvements to the system, Engle purchased it in 2001, dubbing it Black Mountain Television.

Thanks to Engle's technological know-how and improvements in customer service, Black Mountain has been a success. It offers more channels at cheaper rates. Black Mountain also has extended its office hours to better serve customers.

The company uses local technicians, so customer requests are addressed more quickly, and jobs stay in the community.

Now, Black Mountain is preparing for another round of growth.

"We have increased our subscriptions dramatically," Engle said. "And entering the market in neighboring Benham, we expect more than 300 new subscriptions. That kind of growth

takes operating capital."

KHIC supplied that capital through a Microloan that also will help Black Mountain build credit for future growth.

"We look forward to working with Kentucky Highlands to help our company grow," Engle said.

Kentucky Highlands is looking forward to it, too.

"Kentucky Highlands is pleased to have the opportunity to work with entrepreneurs like Mr. Engle who are working to make their dreams come true," said Ray Moncrief, executive vice president and chief operating officer for Kentucky Highlands. "We are happy that we can play a small part in that."

New Face in and Old Place... continued

the next level. The rates were very competitive."

And the switch from used to new merchandise has been a positive one.

"I enjoy looking at the new products, seeing things a year in advance," Hooker said. But it's not just the buying that she enjoys. "I also enjoy selling, working directly with the customers."

Many of those customers are locals, but the store also has found regional appeal. Customers come from the surrounding counties of Leslie, Jackson, Knox and Laurel to shop at the store.

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TCA back on right track

In July 2002, the 300 employees of TCA feared the worst. An economy in a slump and financial difficulties meant that the Williamsburg-based firm was within days of having to shut down.

But by August, the company's former owners had returned. New investors, and assistance from Kentucky Highlands, had TCA back on track.

TCA provides contract manufacturing services to large corporations. It is the only company providing three technologies—thru hole, surface mount and chip on glass—to the electronics industry.

The company, which has another facility in Jackson, Miss., originally made parts for IBM and, later, Lexmark. Customers grew to include John Deere, Texas Instruments and Mas Hamilton.

The difficulties became apparent in July 2002. But in August, the Hart family, TCA's former owners, regained control. The Harts merged TCA's sister corporations into a single entity, leaving TCA alone for tax purposes and renaming it Accelerated Technologies.

"We put a lot of blood, sweat and tears in this company," said Steve Hart, president. "It's certainly hard to return under these conditions, but when we sold it, we left lifelong friends down here. It didn't take long to make the decision to return."

The Ellison Group of Lebanon invested in TCA in early 2003.

"They were a big part of bringing TCA back on track," Hart said. "The future looks very bright."

KHIC, in turn, worked with National City bank to restructure TCA's debts. In the past, KHIC has provided a line of credit, equipment financing and working capital.

"KHIC has been instrumental," Hart said. "The executive vice president and chief operating officer, Ray Moncrief, has been an invaluable resource, and a great friend."

For its part, KHIC is glad to see TCA back in action. "Things have turned out for the best," Moncrief said. "With a new partner committed to the project and the current management in place, KHIC looks forward to the future of this company."