

KENNESAW STATE UNIVERSITY ORAL HISTORY PROJECT

INTERVIEW WITH GEORGE W. KALAFUT

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for the

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KSU Oral History Series, No. 53
Interview with George W. Kalafut
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TS: Mr. Kalafut, why don't we begin with what we ask everybody, which is when and where you were born? Also talk a little bit about your background.

GK: I was born in Chicago at an early age and immediately moved to adulthood!

TS: That would be nice if everybody could just skip to adulthood.

GK: That's right. I had a very ordinary growing up, went to college in Indiana, joined the Navy after working for a year at Montgomery Ward, had a career in the Navy, and upon retirement joined the Genuine Parts Company where I spent the next twenty-five years before retiring for a second time. So twenty-two years with the United States Navy and twenty-five years with the Genuine Parts Company.

TS: I understand that you went to Saint Joseph's College and you say that was in Indiana?

GK: Yes, Rensselaer, Indiana, which is halfway between Chicago and Indianapolis. It still exists, with an enrollment of about 1,000 students. It's a small, Catholic college in the rural area of Indiana that recruits most of its students from either Indiana or the Chicago area.

TS: What year did you graduate?

GK: In 1837.

TS: In 1837, okay [laughter]. Not quite.

GK: In 1955.

TS: Did they have an ROTC Navy program or anything like that?

GK: No, but that was in the days of the draft, and I knew, ultimately, I would be drafted into the Army and really wanted to join the Navy. After about a year with the Montgomery Ward Company in a training program, I chose to join the Navy. I was in the business-side of the Navy for twenty-two years, specializing in logistics and finance. I had a great career, but then I didn't want to get too old to be able to convert over to civilian life and have another full career. I was in my early forties at that point in time, and with regret I decided to retire and fortunately came upon an opportunity with a subsidiary of the

Genuine Parts Company. I spent ten years with Motion in Birmingham, Alabama, then the last fifteen or so in the Atlanta area at GPC headquarters. I feel very fortunate.

TS: What was your undergraduate degree in?

GK: Economics.

TS: You went to an officer candidate school, is that the way it worked?

GK: Yes. And then went to Athens, Georgia, at the Navy Supply Corps School for six months, which for some reason was in the middle of Georgia. That's when I first learned about red clay and grits and things like that. I had a good six months there before then going to sea on a Navy destroyer.

TS: Well, growing up in the Chicago area you've got Lake Michigan. Were you an outdoor type and went out on boats?

GK: No.

TS: No?

GK: I loved the water and enjoyed being on it and all, but I never either had the opportunity or chose to take full advantage of it.

TS: Wanted to see the world?

GK: Yes, I wanted to see the world and was always fond of the Navy from growing up times. It was just a natural instinct on my part, not necessarily to seek a career, but just to join without expecting to spend twenty-two years in it. But there are a lot of fine, hard-working people in the Navy. And, with only two tours at sea, it wasn't as arduous for me as for the operators who go from one ship to the other. I had tours in Charleston, SC, Washington DC, Philadelphia, Boston, San Francisco Bay, and Hawaii. So we were pretty fortunate in terms of our tours of duty.

TS: Let's see, '55, so you got out in '77?

GK: In '78.

TS: No tour to Vietnam or anything?

GK: No, I was aboard a carrier during the last two years of the war as a supply officer, but by then the conflict had already been winding down. Previous to that I was with the Pacific Fleet Submarine Force and the Naval Air Systems Command where I was buying airplanes for the Navy. So I didn't have direct participation in Vietnam.

TS: Somewhere you went to Harvard Business School?

- GK: Yes, the Navy was good enough to give me that opportunity. I was a pretty old guy to be going there, but the case method helped me to get through—I would not have survived I don't think in a more traditional, postgraduate school with the classical method of teaching. The work experience really did help an old guy because I was around thirty-three when I went there.
- TS: An old guy [laughter]!
- GK: Yes, in retrospect, compared to a lot of the bright, young guys in our class. Harvard has always wanted folks to work a few years before going to the business school, as you know. I think a lot of the other business schools think the same way now, but not necessarily ten or twelve years of experience. After that period you're just not accustomed to the rigors of a pretty intense curriculum. But in my case it worked out.
- TS: And back then it's more of a traditional-age student body than it is today.
- GK: Yes. But I think the business school has still encouraged folks not to go directly from undergrad to MBA, but rather to spend three or four or years working before enrolling because one has a better appreciation for the case method and will therefore be better able to cope with it.
- TS: Right. Well, with the case method were you able to do anything with your Navy experience?
- GK: Yes, because I had been managing people from my first tour of duty in the Navy. I guess we had close to thirty people in the supply department on a Navy destroyer, while operating independently. So there was a maturing process. Some people have a bad experience in the military, but a lot of us, whether it be officer or enlisted enjoyed an invaluable experience. Certainly I was lucky early on to learn how to and how not to manage people. Not that I succeeded immeasurably, but you mature earlier by that process, and I think it helps one regardless of what you do in life thereafter. The supply corps provided additional advantages because it's business-orientated, with functions like finance and logistics. So in terms of transition to civilian life, it makes it even easier than for the ship drivers and aviators whose experiences are more operational in nature.
- TS: I guess in some ways probably in the military you can get into really responsible management positions faster, can't you, than if you had gone with a civilian company?
- GK: I think so. There are a few hot shots that probably spring out in the civilian world and have lots of responsibility early on, but I don't think you can do better on the average—whether as a petty officer or as a commissioned officer—to get more responsibility earlier in your career. And with a system around you that helps you succeed. Now when you get into combat—that's a far different thing. You learn a lot faster on your own or you don't come back. That's opposed to the more methodical experience during peacetime. During peacetime the Navy moves you around every few years, so you get a

breadth of experience and are not locked into one position. The civilian bureaucracy in the Department of Defense often takes a lot of knocks, but behind the headlines a lot of good things take place. For example during my tour in Washington I found a lot of hard-working, very competent civilian civil servants. Yet all you hear about are the \$400 toilet seats and crazy things like that.

So we paint that brush over a large number of folks, particularly if we're disposed against the military or government in general. It's interesting to live in that world and see a lot of good folks who make the best of a system that is very complex. But I think if the folks complaining on the outside were put in there, they would find the same difficulties and challenges. It's the same way with politicians. I am a-political by nature because of my twenty-two years in the Navy, but how many of the folks who grouse about politicians could at seven in the morning talk to the nation on CNN as well as understand the complex issues they have to take on every day. Few of the politicians on either side these days are doing very well, as far as I'm concerned, but most of us would fail even more so. While living in the Washington area, as we were fortunate enough to do for seven years, if you pay any attention to the local news, it is the presidency and the Congress, and you learn just how challenging the task of running the government really is.

TS: I would hate to be under the microscope constantly for everything I said in a classroom.

GK: Especially now where they have videotape on something you may have said in the classroom on a day many years ago when you may not have felt very well and thanks to technology almost instantly bring this video reminder forward. But maybe this keeps politicians a bit more consistent.

TS: Right. Okay, you started out managing about thirty people. You were a captain by the time you got out. Could you just talk briefly about your progression of responsibilities in the Navy?

GK: Again, we moved every two or three or four years, and so I had a variety of assignments that were challenging, each in their own way. Early on, I served at a naval shipyard and then a naval air station. Later on, I was buying airplanes for the Navy and involved with the F-14 Tomcat program at the Naval Air Systems Command in Washington as a pretty young fellow. That's where I think I learned to understand the complexities of the procurement process which involved the Congress, the Department of Defense, and the Navy Department, as well as a boat load of procurement regulations, with the pressure to get these very expensive weapons out to our fighting guys in a timely manner. In addition, I was Force Controller for the U S Pacific Fleet Submarine Force for several years.

TS: What was that term you used, something controller?

GK: I was the force controller for the submarine force of the Pacific Fleet which handled funding for all the submarines in the Pacific Fleet. To me the most outstanding portion of my career in the Navy was the two years I served as a supply officer on an aircraft

carrier. It was a most challenging assignment and to watch those brave guys take off and land on that carrier made it all worthwhile. Watching night time flight operations was particularly interesting. How those naval aviators can do that is beyond my comprehension. That's particularly true for night operations. One time for me would have been enough. Those aviators were very dedicated guys. They didn't know if they're going to live or die each time they were launched. An aircraft carrier is always heavily involved in operations whenever it's at sea. And how a ship with almost 6,000 people on board can operate so well with flight ops, aviation fuel, weapons, young, 18 year-old kids working on the flight deck is amazing. And the teamwork and the hard-working nature of the Navy sailor are noteworthy. We see this same work ethic here at KSU, with so many young kids working while getting an education. I equate the blue jacket in my experience in the Navy with what I see here with so many of these youngsters, not to mention the adults working their butts off to support themselves and/or their family and yet trying to get an education. I think that attracted me as much to Kennesaw State University as anything.

- TS: Well, Jim [James A.] Fleming said you were on track to be an admiral if you had wanted to stay in the Navy.
- GK: Who knows, but I left with regret as I told you after two years as a captain only because I was already going to be forty-three or forty-four and I didn't want to sell insurance—no knock on insurance—but I wanted to be able to work a full second career. I ultimately retired from the Genuine Parts Company at seventy so it did work out as planned. I knew if I didn't get out then it was going to be harder and harder to start a full-fledged second career. The older you get the harder it is to make a successful transition. As things go, it was a pretty easy transition for me because I was in the business side of the Navy. While we didn't have P&Ls in the Navy we did have a lot of quantitative measures of performance, so it wasn't like we weren't measuring ourselves pretty aggressively. And we were pretty used to moving around. The move to the southeast after living in Washington, Boston and San Francisco was also a transition. But it all worked out pretty good.
- RP: I'm just curious, when you were making that decision to retire and then you were looking for something on the civilian side, how did you wind up in the southeast? Was that simply a function of the job you got or were you looking to relocate to any particular place.
- GK: We were willing to go anywhere. We looked at the west coast in the San Francisco Bay area because we had enjoyed living there when we were on the aircraft carrier. We came from Chicago, loved Chicago. We had lived in New England, and Boston would have been fine. We're big city folks, so we didn't mind living near any of the large, metropolitan areas and that's where many large companies were headquartered. It was just a happenstance that provided the connection with Motion Industries, which is a subsidiary of Genuine Parts Company. We had a couple of offers from the Washington D.C. and the San Francisco Bay areas, but chose Motion Industries because it seemed to best fit my experience and capabilities. But we would have gone anywhere. Contrary to

a lot of folks nowadays, my wife didn't have to work, so we didn't have the problem of dual careers—so we were pretty fortunate thanks to her flexibility of willing to go anywhere—to a small town or rural area probably less so just because we were both big city kids. Other than that we were pretty open to go anywhere.

RP: What was Motion Industries that you mentioned that's a subsidiary?

GK: Right now it's a three billion dollar in revenue subsidiary of Genuine Parts Company involved in the distribution of industrial parts, bearings, fluid power, hydraulics and other industrial parts. When I joined it, it had a hundred million or so in sales and was still a relatively small company. By the time I moved to Atlanta to GPC headquarters, I think we were up to a half billion. Now it has three billion dollars in annual sales and represents about a third of Genuine Parts Company's sales and profits. It's headquartered in Birmingham, Alabama, and had been acquired by Genuine Parts Company just before I signed on. It was a great relationship as Motion was a very entrepreneurial, small company that needed cash to keep growing because it was growing at a double-digit rate. GPC had the management experience of having grown up decades before into a larger company, had good cash flow to be able to support the Motion expansion, and a great relationship between the two companies ensued. Wilton [Wilton D.] Looney, of course, you've probably heard that name in town, was the CEO of Genuine Parts Company then and had known the two owners of Motion Industries, who were both Birmingham guys who had fought in the Great War [World War II], had been friends before the war, then came back, bought a little one branch company in Birmingham, and grew it to what is now a three billion dollar business with some 500 branches around the country.

TS: When you say "Great War," we usually use that term for World War I. You're referring to World War II?

GK: Yes.

TS: What exactly did you do for Motion Industries? What did they hire you to do?

GK: Different things, but I was CFO for several years then managed their distribution centers before coming, in 1989, to GPC headquarters in Atlanta. I became GPC's CFO a year or so after moving to headquarters and held that position for the next ten years. Then one of our senior logistics guys retired so I slid over and for the last three or four years was executive vice president of logistics, information technology, pension and 401K plans, then finished up and retired at seventy.

TS: By the time you came to Atlanta you're doing it for the whole Genuine Parts Company, right?

GK: Yes. Headquarters for GPC is here in Atlanta and has been since its founding in the late '20s. Motion's headquarters is in Birmingham. GPC, of course, is best known for its automotive parts NAPA brand, the blue and gold signs that you see all around; and it has always been the largest part of the company. It was the company until GPC acquired

Motion and S.P. Richards [Company] in the late '70s. The latter is another Atlanta based company and is involved in the distribution of office products. They are the three major foundations of the company with half the business in automotive, a third in industrial parts, and the remainder in office products. All three are involved in wholesale distribution.

TS: In the '20s, that's when the automobile was just taking off in America, I guess. Genuine Parts was in on the ground floor at that point.

GK: Yes. Today, there are over 5,000 stores in the NAPA system, some 4,000 of which are owned by independent businessmen and women, who own what are called jobbing stores. They are located throughout the country, most of them in rural areas. GPC has had a "handshake" relationship with these independent owners, which in some cases has existed for two and three generations. These jobbing stores primarily sell parts to automotive repair shops, but if you wanted to go in and buy a part for your car, you could do so. In addition GPC manages some 50 distribution centers around the country which provide parts to these independent jobbers as well as to some 1,000 company owned stores. These company owned stores are all located in the major metro areas. They are company-owned in order to avoid the conflict of competition among individual owners in the large cities.

RP: These independent sellers, it's not a franchise system, this is just

GK: No, it's essentially a handshake. There are a few firm requirements nowadays, but it's essentially still a handshake. The Genuine Parts Company provides these independents computer systems, marketing programs, and other support services besides negotiating prices with the parts manufacturers on behalf of the entire system. So it's a rather unique relationship, which unlike some of the onerous relationships between franchisees and franchisers that we read about from time to time has worked well for almost eighty years. Every now and then there's an unhappy jobber. Obviously you can't avoid that when you're working with so many independent business people. But it's amazing how well the system has worked. A lot of this is due to Wilton Looney who took over as CEO when the founder of the company, Carlyle Fraser, died in [1961]. He was Chairman and CEO until 1990. And he was the one who took the company from a small firm to Fortune 500 in size and stature. Wilton served in the Great War [World War II] and after returning to private life rejoined GPC, thereafter soon becoming president. Then when Mr. Fraser died, he became CEO. Larry [L.] Prince followed Wilton as CEO and served in that position for fifteen years. [Chairman of the Board, 1990-2005] Tom [Thomas C.] Gallagher succeeded Larry as CEO in 2005. So there have only been four CEOs of the company since its founding.

TS: Well, you were talking about some of the reasons why you were interested in Kennesaw State; it might be a good time now to start transitioning to the Foundation. Let me just ask, first of all, about Genuine Parts. Did they have an ethic of public service where top management was expected to be out in the community?

GK: Yes. We're different than a lot of companies in Atlanta in the sense that we don't have a large corporate staff. It's a ten billion dollar revenue business now, and if you exclude a corporate HR Service Center, which was formed in the last five years or so, there are probably only twenty people in the company's headquarters organization. So we haven't had the large staffs that a lot of the big companies have. But the company has always been civic minded going all the way back to Mr. Fraser's and Wilton's time. Betty [L.] Siegel paid a visit on Larry Prince, who was our CEO at the time, asking if there would be anyone who might join the Foundation from GPC. Larry mentioned it to me and I rogered up on it and joined the Foundation in the early '90s.

TS: I've got '92.

GK: So it happened by Betty's visit with Larry, whom she knew, I think, from one of the boards—Equifax [Inc.] that they were both on. But there are a number of other GPC officers who have been involved in Atlanta area civic associations. And the annual United Fund drive is always a major event for our company. I think, given how few folks we have around town, the company has done a pretty good job in supporting the local community.

TS: Right. So in '92 Betty Siegel basically recruits Genuine Parts for the Foundation, and you become the representative.

GK: Right. All volunteers not here, one step forward.

TS: Right.

GK: No, I was happy to do it.

TS: Let me just ask you first of all, your impression of the Foundation board, the trustees, when you came on the board. That's at a period by '92 where the Foundation is growing in terms of the amount of money that it's raising, but it's still a long way from where it is today. What was your impression when you first came on the board?

GK: I'm not sure I had one. It's so hard to understand what's really going on until you become more deeply involved in an organization. For the first few years I was a trustee, I went to the annual meetings, but wasn't deeply involved. And that's why I'm not of much help to you in terms of what happened with the Newt [Gingrich] project. I've got an opinion on what happened but I just wasn't directly involved with the development of that project. I subsequently became involved with the Finance Committee—I didn't take time to look it up—and then that's when I became more involved, especially when things started to happen, project-wise in 2000. At that time we probably had fourteen or fifteen million dollars of assets and an unrestricted budget to support the University and the Foundation of less than \$400,000. That's when the Foundation began to rapidly grow. At the same time the University continued to expand. I don't know what the enrollment numbers were then [13,951 in Fall Semester 2001], but here we are today with Foundation assets over \$200 million and University enrollment approaching 20,000.

So until the year 2000 the Foundation was really a relatively quiet operation, financially speaking. And it didn't involve a lot of my time until then.

You had old-timers like [J.] Larry Stevens, Ron [Ronald H.] Francis, Mark [R.] Kirk and Ron [Ronald E.] King—I'm not naming them all—Michael [J.] Coles was also a heavy hitter at that point in time—who were deeply involved with the Foundation. I must say for probably the first seven or eight years my understanding of the Foundation was pretty limited especially in comparison to the last seven or eight years.

One of our first major efforts with the Finance Committee was to further diversify the investment of our assets. Michael Coles had laid a great base in starting to invest our endowments in something other than money market funds. We had relatively few invested dollars at that point, but we began the process of spreading our investments among a number of equity and fixed income managers. Today we have eleven different investment managers.

Then things began to change as the building projects began. I give Michael, Tommy [Thomas M.] Holder and Norman [J.] Radow credit for what happened. In the case of Tommy and Norman, their real estate and construction expertise was particularly important. I don't know what we would have done had we not had folks like them overseeing the construction projects which followed. Michael started it all by getting the first project approved, but then Tommy and Norman took over. But these two guys led us through this growth period. And behind the scenes were Jim Fleming and Wes [Wesley K.] Wicker and their Foundation staff working to support these efforts.

If this were a small business, it'd be in one of the *Inc.* magazine's fastest growing businesses lists. And the growth hasn't ended, as we have another fifty million dollars bond issue about to be initiated for more housing and another large bond issue planned after that for more parking. So, in a very short period of time we could very well have assets of \$300 million. All this in seven or eight years since 2000.

TS: I know pretty much Holder's role. What exactly was Radow's role?

GK: Are you aware of him in terms of his entrepreneurial experience? His is quite a story. Fortunately he was deeply involved with Tommy in the design, development and construction of all these projects. He and Tommy bonded in terms of working together. I'm not sure I can take one and separate him from the other in terms of their contributions to the Foundation's projects. And the amount of time each contributed is also noteworthy as each was running his own business during this period.

TS: I want us to not forget to come back to the Newt [Gingrich] course and your opinions on that, but why don't we focus on the Finance Committee and your role in growing these assets because that is really remarkable from fifteen million to two hundred million in just a few years' time. Quite frankly, I don't understand anything about finance, so you'll have to excuse my ignorance.

- RP: Neither do I [laughter]!
- TS: I guess this may be a really dumb question, but without going out and raising a whole lot of money, how do you go from fifteen to two hundred million in just seven years' time?
- GK: Well, because with the cooperation of the University and the BOR [Board of Regents] we were able to put together financial projections, which showed the Foundation could issue bonds to finance our building and parking deck projects and pay these bonds off in a 25-30 year period. You might ask, why didn't the state use appropriated funds to do all this? Well it just takes too long to get appropriated funds for such projects, and the university has been desperate for housing and parking. We had some folks at GPC who were night students here, and they said when asked what the biggest problem was, "Parking, we can't find a parking spot." And of course there was no student housing at this time.
- TS: As we grow we're going to always have a need.
- GK: Yes, we need a bunch more housing and parking right now. But the point was here was an opportunity to help the University in a very timely manner. I'm not expert on this at all. I don't know how many other states are doing things like this where a Foundation can issue bonds under the foundation's name with tax exempt interest rates, and twenty-five to thirty-year maturity in order to expedite the process of developing needed housing and parking. But it's clearly working well here at KSU.
- TS: Do you think this may be unique to Georgia?
- GK: I have no idea. I doubt it. I would think it is a common thing.
- RP: Does the state guarantee these bonds?
- GK: Depending on which project is involved. For example, in the case of Town Point the BOR had to approve the university committing to paying rent for all of the available space in that building. In the case of the housing the University says, "We need the beds and we will permit you to charge rent to the students for living there." But it has to be a firm agreement between the BOR, the University and the Foundation. If the BOR and the University were against it we simply wouldn't do any of these projects.
- TS: Town Point is right across Chastain Road from campus where the Foundation is located in a four-story building now. Do you own all that property back there or just the building?
- GK: No, just that and some adjacent land to it. I think that's one of the great opportunities for the University in terms of expansion. To me, among the biggest challenges that Dr. [Daniel S.] Papp faces is acquisition of more land so that the University can grow. With the BOR's planned growth rates for KSU we need more space for classrooms, we need more space for the faculty, we need more housing and parking. I don't know how we can grow without additional land. You guys know the property around here better than I. But

it's apparent to me that the most likely path for expansion lies to the south of Chastain. But with real estate having been priced up, it gets more difficult to be able to justify from a financial viewpoint.

TS: I understand there's a pedestrian bridge that's at least in the discussion stage across Chastain Road, which would certainly make possible a lot of development in the Town Point area.

GK: Yes. We'll keep our fingers crossed and hope that something works out in that direction. And if we can't acquire additional land then the question becomes how do we hunker down and just make the very best of what is already certainly a very fine situation, and then just work on optimizing the space that is currently available.

TS: Let's just take something like parking. What the Foundation has done is the decks, right? I think it's 2002 that the West Parking Deck and the East Parking Deck opened up, and since then we've got the North Parking Deck, and I don't know what it's going to be called, but there's another parking deck in the works that they're going to start working on next year.

GK: Hopefully.

TS: Okay. You sell bonds to pay for all these parking decks?

GK: For the construction of it. Then we use parking fees for the revenue to support the project. We will pay off the principal much as you pay off a home mortgage in this case over a twenty-five to thirty-year time frame. We try to lock in interest rates on all our bond issues because interest rates continue to be at historically low rates. You may be getting lower rates in the short term by variable rate financing, but with the kind of dollars involved here it didn't seem to be a prudent thing to do so. I should add we're blessed in the Finance Committee to have a number of real pros on the committee. We've got Ron Francis, a former KSUF chairman [chairman, 1996-98]—banker, experienced, savvy guy [retired Vice Chairman, Bank of North Georgia]. You've got Larry Stevens, M&A guy [Partner, PriceWaterhouseCoopers], also a former Chairman of the Foundation [1991-94] and also very savvy, as are Larry [Lawrence D.] Wheeler, another long-hauler and banker [Senior Vice President (Retired), Bank of America], and Richard [R.] Corhen, who is probably the newest member of the committee—another banker [former Executive Vice President, Main Street Bank; current Commercial Market Executive, First Charter Bank]. Much like Norman and Tommy have been able to lead the way on the development and construction side of it, you've had these four guys lending a heavy hand on the financial side of things.

TS: So I guess the way it works then on the parking decks, the students are paying it back or really paying off the loan?

GK: In essence, much like the rents for the rooms. They are paying for the repayment of the principal and the interest on the bonds in exchange for use of the parking and housing.

- RP: It functions sort of like an industrial revenue bond in the sense that the state or the locality might issue bonds to build a factory or something, and then the company pays rent at the building and that rent basically pays off the debt.
- GK: Yes, and this will continue over a twenty-five to thirty-year period of time until the bonds are paid off. The first property we acquired in this manner was for KSU Center. TUFF [The University Financing Foundation, Inc.] initially handled this project for us since we were new at the game at that point and it was not a very large project. We subsequently transferred that bond issue to the Foundation's books and have handled all the subsequent projects ourselves.
- TS: I wondered about that. So, in effect, we first leased the old Outlet Limited Mall where KSU Center is now from TUFF?
- GK: On our behalf they bought it, and we leased it from them, but with the provision in the agreement that we could acquire it whenever we wanted. This is during the period when I was becoming more involved, but my memory is a bit dim regarding why we chose to go with TUFF other than for the reason that they were better positioned to handle this bond issue, having done so for other Georgia schools. Jim Fleming can probably tell you more regarding this.
- TS: Right. So we leased it from them for a few years and then somewhere along the way
- GK: We assumed the bond issue from them. That was the intent from the beginning. But that was our first venture, and, so when we took it over it was the first major step in the growth of our asset base.
- TS: I gather from Tommy Holder that we're going to be staying there permanently.
- GK: Staying?
- TS: Continue to use that building indefinitely.
- GK: I would hope so. From listening to the adult education folks it sounds like a real winner. I keep looking and saying, gee, that seems like a pretty inefficient facility given this desperate need we have for space, and if it were right adjacent to the campus, you'd say, "Yes, let's tear it down and put a five story building up." But given where it is and its purpose as well as with all the parking around it I say it's serving our needs well. The Continuing Education dean [Barbara S. Calhoun] briefed us back a year or so ago and affirmed its utility, so it seems to have been a very successful acquisition.
- TS: Well, we've done a lot of public programs over there too. It's a good space for that and like you said, we had the *Anne Frank* exhibit for three years and now have some new exhibits over there.

- GK: And with the congestion on the campus, it certainly has helped to relieve some of the on-campus traffic congestion, so it's turned out to be a very useful property. And God only knows what can be done with that property going forward to meet the University's growing demand for space.
- TS: Yes. We've got a nice Employee Fitness Center over there. I think Coles College of Business is running something over there now, so it's constantly used.
- GK: Absolutely.
- TS: Okay, so that's the first big venture.
- GK: I think so. And, you know, that was only a thirteen or fourteen million dollar project, and I forget the exact timing. I didn't try to go back to be precise because you can get that from Paula directly from the records. But then that was followed by the first really big housing and parking projects. That's when we really started to move into far more complex times.
- TS: Does the Foundation own the parking decks now?
- GK: Yes, with a ground lease form the BOR, I guess, technically speaking.
- TS: I guess really what I'm asking is, will a time come when the Board of Regents owns them?
- GK: Yes, that's true in the case of all the facilities located on University property. At the expiration of each bond issue the property becomes state (University) owned. I believe the situation for KSU Center and Town Point is different since they are not located on state owned land. I don't believe this is an important issue because the Foundation is here to serve the University, not to build its own power base, contrary to what has gone on elsewhere in the University system. We're here to help the university.
- TS: In terms of your assets at some point, they won't be your assets anymore when the university takes over?
- GK: Well, don't forget these assets keep depreciating down according to accounting rules and we do not adjust their value to reflect rising real estate values. As a result our net worth has not and will not grow as rapidly as our growth in assets. So when you initiate a bond issue, you add assets to your balance sheet at construction costs. At the same time, you add a liability for the bond, and then you work down the assets through depreciation and the liability through bond payments. So the value of the building assets will keep going down as they're depreciated. And our net worth will gradually grow as the bond payments exceed the rate of depreciation. But then at the end of the bond issue, the properties will revert to state ownership.
- TS: Two hundred million: how does that rank in Georgia with other institutions?

- GK: I don't know. The guys tell me that UGA has that much in investments. I just don't know other than we probably rank higher than you would expect. We're third in enrollment now, and we're probably up that high in assets because of these capital projects.
- TS: We're going to be breaking ground sometime soon for more residence halls on the north side of campus?
- GK: Yes, 900 additional beds, if my memory serves me right, and it'll be a little over fifty million dollars project. The developer has been selected, and our gang is working on the bond issue now. I think within thirty to forty-five days the bond issue will be locked in. We've had a good bond rating because of the good work that has already taken place. That will help keep the interest rate lower on the new project. So far, we've been lucky in this string of capital projects, interest rate-wise. I really had expected by now interest rates would have gone up. I don't mean back to the double digit rates of the 1980s, but back to the 6 to 8 percent range. But we've been lucky so far. Only time will tell. Maybe we'll back down to four and three and even five won't look very good, but as you look at the history of interest rates we've been very fortunate in regard to the prevailing interest rates.
- TS: Do you think we'll get that low?
- GK: Well, at least for variable rates, not necessarily for long term fixed rates. The yield curve is still screwy, inverted at times and just hard to figure. But it does look like we've been lucky. Had it been in a different period of time, certainly in the '80s, we might not have been able to do some of these projects or would have had to charge higher rents to the kids, or charge higher parking fees simply because the interest rates would have been much higher than they have been. We've lucked out to at least get a couple hundred million dollars at recent rates, and if we can skate through this next bond issue without anything happening in the next month or so, we'll have some \$250 million worth of projects financed at historically pretty good rates.
- TS: I was under the impression on University Village that there were going to be shops on the first floor. That hasn't materialized yet, has it?
- GK: Well, they've had a hard time in coming up with entrepreneurs wanting to go in there. This is changing a little bit—we've got a couple of stores that are ready to open up there and Bob [W.R.] Heflin, [Jr.] has brought a lot of new vigor to finding businesses for this facility. Are you guys aware of Bob?
- TS: No.
- GK: Well, he's the staff real estate guy now. He came on board perhaps a little over a year ago or so. He's experienced in management of real estate, and he's a "24 by 7" guy. We needed someone like him, perhaps, even earlier because you can't rely on the Tommy

Holder and Norman Radow and the trustees on the Real Estate committee to manage these properties on a day to day basis. You need people running it day in and day out who are on-site. I believe it was through Mark Kirk that we became aware of Bob Heflin, but if there was a big plug we needed to fill this was it. We needed someone in finance a couple of years before, and that's where Paula Muffelman [Campbell] was found. She certainly has filled the bill on the finance side of house. And now Bob has done the same for the capital project side of the house. How we lucked onto him is just one of those things that you say, "Thank God for that." So he's managing all our properties for us. He has also put new energy into finding additional retail businesses. Finding candidates hasn't happened as quickly as was expected in part because there's not enough 24/7 activity on campus. As the number of students living on campus grows, the situation should improve. If not, from my viewpoint, you can turn the space into classroom or administrative space, so it will be used.

But Tommy is committed to finding retail businesses to fill that space. He said we promised the students that when we began this project, and so even though it has been slow going he's urged Bob to give it another try and sign up some additional retail stores. Also, it's hoped that once we see the success with the first couple of businesses, then others most likely will come. It's a tough situation in that you can't serve beer. When you think of some sort of a hamburger joint or pizza parlor, if you could serve beer it probably would have made a difference. So it's been a little more inhibiting than any of us realized, but I listen to the real estate people, and they're saying, "This will ultimately succeed." Also as we have more students living on campus thanks to the additional housing to be built, that will help too. But in the short term it's our commitment to the kids to include retail stores that has driven the Foundation, and let's hope it works out according to that plan.

TS: I think it would be really nice if there were some shops down on the first floor. Who determines what the rent is that the entrepreneurs have to pay?

GK: The Real Estate committee handles that question in part through direct negotiation with interested parties. Between Norman, Mark and Bob we have a lot of market savvy in that committee in dealing with issues like this. Then Paula and the Finance Committee review all proposals developed by the Real Estate committee from a fiduciary viewpoint. The same thing is true for student room rents. In this case the Real Estate committee has a market survey performed each year to ensure our rent rates are competitive with the surrounding area, as well as to ensure they produce sufficient revenue to cover our debt coverage. As you know, we're pretty much filled up now and are ready for next year. We can be pretty well assured that the beds will be filled throughout the year.

TS: I don't think there's any problem with that.

GK: No, but you know, things can change, e.g., if the BOR were to change its philosophy and put another institution further up in the northwest part of the state. I don't think that's going to happen, but my point is that over a twenty-five or thirty year period, you never

can be sure on things like this, and so you have to stay alert to changing conditions. But certainly every indication is that our capital projects will be successful.

TS: You need a certain critical mass to support all the programs on campus.

GK: Yes.

TS: I've heard some people say that we need at least 5,000 beds on campus. Is that in line with what the Foundation is thinking?

GK: I don't know. I can't answer that. All I know is there's a ratio that keeps you safe. We can look at other institutions around the country to gain perspective on that issue as we go forward. My guess would be 5,000 beds would be very safe because by the time we get to that number we will have more than 20,000 students on board. We'll measure the overall demand for housing as we add each new housing unit and before we take another step forward. Also, the bond issuers and insurers look at stuff like this nation-wide, so we'll have all kinds of advice. Let's assume we get to 3,000 with this next move and then we contemplate another step after that of another thousand. The bond guys will be challenging that ratio as carefully as we, so we'll have plenty of outside help on it. Fortunately, the way we're doing it in smaller steps makes it easier to be cautious because we'll be growing in relatively smaller increments.

TS: We're certainly getting younger students with residence halls on campus, a higher proportion of younger students, but I think maybe the next step is when we start actually recruiting people from all over the southeast to come here to Kennesaw to live in the residence halls. I think that's just beginning to happen now.

GK: Good point. With our on-campus housing as well as what has now been established regarding the reputation of the university and some of the stellar programs KSU has in place, we should be able to effectively compete for students from a much broader geographical area.

TS: I'd like to go now to talk about the Newt Gingrich's course unless, Randy, you have some questions.

RP: No, that's fine.

TS: You came on board I guess about one year before Newt Gingrich taught his Renewing American Civilization class. That actually got the Foundation into a good deal of hot water with the IRS, and you say at that point you were attending annual meetings, but not so much being involved.

GK: I don't even know if I was on the Finance Committee at that point in time, but I think I heard enough about that project after the fact to conclude that it was well intended to promote the University's name using a well-known and well qualified individual to head it up, but that we were naive not to recognize the risks of the project becoming a political

football. That probably would have been the case had the Speaker been either a Democrat or a Republican. To me the lesson learned for the Foundation was that regardless of how well intended any proposal or project is it must be aggressively challenged by the Foundation staff and the various Trustee committees if the Foundation is to be involved. Both the University and the Foundation have gotten wiser since then, particularly as we have had to jointly deal with all the complex capital projects started over the last seven or eight years. So, I hope we collectively learned a lesson from that project and would now not get involved with such a proposal.

TS: Larry Stevens signed the deed.

GK: Was he the one?

TS: He said it was the worst mistake that he made.

GK: But, again, I think, it was very well motivated. I think I know Larry well enough to know that he would not have done it except to promote the name of the University. That's why I feel a little bit for politicians, of both parties I might add, in that at times even well intended proposals and projects can blow up in your face. They live in a tough arena made even worse I believe because of "24 by 7" television reporting.

. At any rate, we all learned something from that project and we try especially hard in the Finance Committee to take a hard look at all projects and proposals with that in mind. In other words we try to be the devil's advocate for the Foundation on all proposals and projects that come before us.

TS: Well, I think it would have been a good course if it had just been a course. It was the financing of the course that created the problem.

RP: And it's difficult when you're involved with a politician who is still in office. It's one thing if it's a retired person, but these are things you don't necessarily think about before a project is launched.

TS: Right. And he wasn't Speaker actually at the time, but he became Speaker the next year, and then that's when it really became big news. Were you involved at all with the negotiations with the IRS at the end?

GK: No, I think Jim [Fleming] handled a lot of that, and with the law firm downtown that we engaged. I do know that it took an awful lot of time on Jim's part to deal with this controversy. And there was some PR damage I suppose but I'm not sure it was very long lasting. As you pointed out it may have been just the financing mechanism that really caused the problem. Had we had a large endowment to fund the project, I wonder if we would have had a problem. But, fortunately, it's well behind us and I doubt we'll ever make that mistake again.

TS: Do you know how much we spent on that?

- GK: No, but it was a lot because we were such a small foundation at the time. I think the law firm helped out by giving us some very reasonable rates if not also doing a portion pro bono. The attorney involved was Bill Duffy. What was the firm?
- TS: King & Spalding [Atlanta, Georgia].
- GK: Am I right, did Jim or one of the others point out that they . . . ?
- TS: Yes, I think the figure that Larry Stevens gave me was almost \$400,000.
- GK: Yes, that was paid over a number of years but it was a lot of money given what we had then, although it didn't put us in the negative. And it could have been much more given the circumstances.
- TS: That's interesting. I understand that there was an agreement with the IRS that the Foundation would put safeguards in place to guard against the kind of misuse, I guess, that you're talking about, getting involved with politics. Or maybe I didn't phrase that right: guards in place that would really question what the administration is doing instead of just being a rubber stamp for the administration.
- GK: I think with the lessons learned from that project and with many of the Foundation Trustees still around that we'll never make that mistake again. I'm trying to remember who was head of the Foundation at that time, was it Larry Stevens?
- TS: He was from '91 to '94; then Michael Coles replaced Ron Francis late in '98. The course was taught in 1993, and Larry Stevens was president at that time.
- GK: But, again, Larry is still around to remind everybody in the event a proposal like this would ever arise again. Further, I can confidently tell you that if the Finance Committee becomes involved in it as it would with any project of that sort, I don't think you have to worry about it getting through.
- TS: Right. One thing I've picked up from interviewing Larry Stevens and Tommy Holder is that after this IRS settlement in '98—or agreement to drop the suit against Kennesaw over our tax exempt status with Foundation—that affected our reaction when the University of Georgia controversy blew and Chancellor [Thomas C.] Meredith asked all the foundations to sign a Memorandum of Understanding [MOU]. Could you talk about that a little bit?
- GK: Again, I wasn't directly involved in negotiating the terms of that MOU but I had no problem with it, since I felt all along that the Foundation was here solely to serve the University. A lot of folks didn't like it. But I said, "We shouldn't need an MOU to guide our efforts, but if they want to put one in place so be it." If we didn't like what's being proposed by the University for any project of mutual interest because it's wrong in our mind from a practical or financial view, we'd let them know our views, and if they didn't

listen and it was really an important issue some of us would simply resign from the Foundation. If you've got a guy like Dr. Papp as President, who seems to have such a well rounded business and academic sense, you're not going to have stuff like that to deal with. Likewise, with our current Foundation leadership. But the next person coming in may be different. My sense of it is akin to those large shareholders who want to influence a public company. I say, "If you don't like what management is doing and you can't persuade them to change, then sell the damn stock and go buy a stock you like." That's how I feel about the situation here. That's why I had no problems with that MOU. Write it as you see fit. Hopefully the document will be well balanced taking into account the responsibilities of both the University and the Foundation. If written properly it won't change our responsibilities as trustees of an independent organization to operate properly while supporting the University as best we can. And that, I think, is what happened. When we start thinking otherwise, like I think the folks at the UGA Foundation did back a while ago, problems are likely to ensue. I didn't like all the things that President [Michael F.] Adams had done over there either, but on the other hand the UGA Foundation Trustees lost sight of their position as well. Thus some formalization of the relationship between University and Foundation was appropriate.

TS: What do you perceive the relationship between the Foundation and Betty Siegel?

GK: Well, it was not always as good as it should have been especially during the late '90s and early years of this decade. Since I was more of a "come to the annual meeting and nothing else" guy in the early years I wasn't too aware of what the relationship may have been in the early to mid '90s. But then as the major projects took form and I became more involved I became more informed. My perception is that for a few years there was a quiet separation between the University and the Foundation. The relationship wasn't bad, but it wasn't as tight as it needed to be. I blame both sides for it. And it did get better when Wes and Tommy came in. I think they collectively did a nice job in bringing the two organizations back together. In looking back I think the situation arose because you had hard nosed businessmen on one side and a flowery, gifted orator/entrepreneur on the other side. I think the common goal was still there, but to use a baseball analogy it's just that the pitcher and catcher weren't working as effectively together as they needed to. That all changed with Dr. Papp's arrival. His more business-like approach to issues and projects fits in much better with the Foundation's most active Trustees.

It's rather interesting to look back at the period. The Foundation had a pretty conservative group of guys in key position. Except Michael Coles—he was pretty entrepreneurial too. And in spite of a common entrepreneurial instinct, I'm not sure how well he and Betty got along. Jim Fleming took a lot of the heat during this period, but that was a bit unfair to Jim as he got caught in the middle. So I blame both sides equally. It probably caused a little dysfunctional stuff, but a lot of good things still happened during this period, starting with the acquisition of KSU Center and the beginning of the first housing and parking deck projects. So it didn't screw things up too much, but it was not an optimal situation. I feel sorry for Jim, for example, because I think he worked his butt off trying to deal with all this, and at some point he just got worn out by it all. The

fact that we didn't have a catastrophic problem, I guess, is the good part of it. But in retrospect we did collectively get a lot of good things started.

What has evolved here is not unlike my early experiences with GPC while at Motion Industries. Motion Industries in the old days was a small, entrepreneurial company growing rapidly under very entrepreneurial leadership. But then they reached a size when management skills vs. entrepreneurial skills became more important due to the size of the company and its growing complexity. Likewise KSU needed someone like Betty during the university's growth years. But then the University reached a size and degree of complexity where it needed a leader who was more management orientated. We needed Betty in Phase I, but now that we're in Phase II we need someone like Dan to take us forward to the next level. I think the BOR did a great job in choosing him. Should it have been done a few years earlier? Let someone else judge that. But Betty was good for the University during its entrepreneurial phase, and you've got a guy in place now who seems to be just right for this next phase.

I can remember the entrepreneurial zeal at Motion when I got there. Then all of sudden we said, "Hey, we need internal auditors to go out and check what's going on in the field operationally and accounting-wise and make sure everyone was following the company's procedures." Also as a company grows you need more sophisticated systems and procedures to operate under. And management must spend more time managing the entire enterprise rather than driving growth. I believe the same is true here at KSU. So the timing of the transition to a new president was pretty good, and I feel very good about the current relationship between the University and the Foundation.

- TS: In talking about the relationship with the Foundation and the presidency and how it's changed over time, I gather that maybe it's that entrepreneurial spirit, but President Siegel had a way of spending money and asking permission later.
- GK: She has that reputation certainly. Like George [H.] Allen with the Washington Redskins who it has been said had an unlimited budget while coaching the Redskins which he invariably exceeded [laughter]. But that's just her style. In days past that was more of an issue. We're now starting to build up a little more of an endowment for unrestricted purposes and have therefore been able to provide more resources to the University. Let me defend her a little bit on that in the sense that the Foundation heretofore hasn't had the resources to do as much for the university as we would have liked to do because we didn't have the unrestricted revenue to do so. It has only been in the last few years where we've been able to increase the amount of unrestricted funding for use by the University administration and staff.
- TS: The headlines in the paper this morning were that the Regents approved \$42 million roughly for the new Health Sciences building, part of their bond, their Capital Expenditure. I gather that the Foundation is going to be responsible for raising another \$13 million on top of that for the building.

- GK: Right. Well, not really the Foundation alone, but Dr. Papp and WW and everyone else involved in that department.
- TS: WW meaning Wes Wicker?
- GK: Yes sir, and the health science folks. To me that's the number one priority for the forthcoming capital campaign. You've got to get that one taken care of before you can think of anything else.
- TS: How big do you think the capital campaign is going to be?
- GK: I don't know. I'm waiting to hear. I've heard different numbers, and, again, because of my background, I'm not experienced in fund raising. But I do know for any campaign to be successful you need a couple of heavy hitters upfront to commit serious dollars to the campaign. And there's a lot of competition going after the local heavy hitters. Fortunately, Wes is very good at this, and Dr. Papp seems ready to work at it because you need the president to be deeply involved in order to get some of these big ticket donations. So we'll see what comes of it. I'm sure it'll be a big number. The Health Sciences building has to be at the top of the list because you've got the \$42 million in state funding depending upon it, and it's such an important facility for the campus as well. There's a lot of competition around including the new Atlanta Symphony hall at \$300 million. I look at that and say, "Do we really have to spend \$300 million on a symphony hall? I love the symphony, but do we have to spend that much to get a noteworthy facility? Is it going to sound any better than having a fine facility quicker for \$100 million or a \$150 million?"
- TS: It's going to be a beautiful facility if they can get their \$300 million.
- GK: Yes, but is it fair with all the other needs, for a symphony, so it will be interesting to see what happens there. In regard to the KSU campaign I think once the campaign plan is firm the first step will be to line up several heavy hitters. If it's going to be a \$50 million campaign, I presume we'll have to have a lock on a third of that, if I understand the rules of the road for such campaign. If you start out from less than that then you've got a problem.
- TS: Well, you're reputation is that you want money to go to things that would help students like student housing and things of that sort, and that you're pretty conservative on the bells and whistles.
- GK: Yes, just by nature, I guess—that bell and whistle exclusion also encompassed a bell tower that was proposed at one point a few years ago [laughter]. But, as you suggest, my priority has been on parking, housing, and additional land for the University versus concert halls and bell towers. But you see, I'm like that to a fault and really don't appreciate the broader experience kids get from performance halls and the like. Athletics, for example—I love athletics, and I love George [A.] Olney [Director of Development for Athletics], and those coaches are a great bunch of guys, but given our

circumstances I'm not inclined towards a football program when we have these significant other needs to fund. The question is how many eighteen year-old college kids will say, "I'm not going to come here," because we don't have a football program. St. Joseph's had a football team when I went there, and that was a big thing for us students, but, hell, we were in the middle of Indiana—Indianapolis and Chicago were each ninety miles away—so it was a far more important element of the campus.

TS: You had less competition for students' time.

GK: Right. We lived in Birmingham for a while, for example, and we didn't have a pro football team, but, Lord, you had two universities that took up about three-quarters of the sports page every day even in the off season, so you don't need a pro team there. Maybe I'm just too old and out of touch in that regard. I respect the fact that my views are somewhat distorted in that regard. I give some running room on that, but as I see it our need again is for more parking; for more beds, for more land; and the rest of the money for the Health Sciences building. Other stuff like the football program has got to be in secondary positions until we can raise the money that is needed to cover all these other very basic needs of the University. Then you start looking at these other things—other than intramural sports, which I do support funding in the interim.

TS: What do you think about football at Georgia State?

GK: It will be interesting to see what happens with that effort, which I find unappealing for the same reasons I find a football program here at KSU a low priority at this time.

TS: What do you see as the future for the KSU Foundation and the university?

GK: Well, you never know because things can turn awry very quickly whether in profit organizations or non-profit organizations. I'd say that the University and the Foundation are currently positioned about as well, relative to all the things going on, as at any time in the fifteen years that I've been involved. Academically, above all, the University's re-accreditation looks like it's going well, and its enrollment continues to grow. I think the University has got solid leadership from what I've seen in the eight months since Dan took over. I think he's a very talented guy for any phase in an institution's history, but he's particularly well suited for this phase at KSU. Tommy is going to retire after five years [as chairman of the Foundation], unfortunately but properly, so we've got to see what happens after that in terms of his successor, but Wes will provide the necessary continuity there. Meanwhile the Foundation's staff has grown to include such fine folks as Karen, Paula and Bob.

TS: Karen Paonessa?

GK: Yes, Karen is a very competent lady who has recently taken on additional development office responsibilities. On the financial-side Paula has taken us from a primitive accounting functionality to a pretty complex accounting system designed to handle all the major projects we're now responsible for. We needed a "green eye shade" to come in

and upgrade our accounting capabilities. And she's done that. On the real estate side of the Foundation, Bob [Heflin] has come forth and added a strong presence there. We couldn't have done better in recruiting for that position. So, in conclusion, with Wes as Executive Director and an excellent staff supporting him, the Foundation, in my opinion, moves forward with a capacity to handle the opportunities and responsibilities that lie ahead.

TS: Do you have any questions, Randy?

RP: No.

TS: Well, have we asked you the right questions today?

GK: You would know better than I [laughter]. I just hope we don't have to edit too much out of it.

TS: Oh, I hope not too, but I don't think so. I very much appreciate the interview.

INDEX

- Adams, Michael F., 19
Allen, George H., 20
Atlanta Symphony Orchestra, 21
- Birmingham, Alabama, 2, 6, 22
Board of Regents, University System of Georgia, 10, 13
- Calhoun, Barbara S., 12
Campbell, Paula Muffelman, 15, 22
Coles, Michael J., 9, 18-19
Corhen, Richard R., 11
- Duffy, Bill, 18
- Fleming, James A., 5, 9, 12, 17-19
Francis, Ronald H., 9, 11, 18
Fraser, Carlyle, 7, 8
- Gallagher, Thomas C., 7
Genuine Parts Company, 1-2, 5-8, 20
Georgia State University, 22
Gingrich, Newt, 16
- Harvard Business School, 2-3
Heflin, W.R (Bob), Jr., 14-15, 22-23
Holder, Thomas M., 9, 12, 14-15, 19, 22
- Kalafut, George W.
 Background, 1-2
 College, 1-2
 Navy career, 1-5
 Career at Motion Industries and Genuine Parts, 1-2, 5-6
 Attendance at Harvard Business School, 2-3
 Reasons for supporting KSU, 5
 Reasons for going to work at Motion Industries, 5
 Recruitment to the KSU Foundation, 8
 Service on Finance Committee, 8-18
 Opinions on Gingrich controversy, 16-18
 Opinions on UGA Foundation crisis and the Memorandum of Understanding, 18-19
 Opinions on relationship between Foundation and University, 18-20
 Opinions on capital campaign, 21-22
 Opinions on football at KSU, 22
 Opinions on the future of the Foundation, 22-23

Kennesaw State University
Students, 5
KSU Foundation
 Finance Committee, 8-15
 Increase in assets, 8-9
 Town Point, 10, 13
 KSU Center, 12-13, 19
 Real Estate Committee, 14-15
 Newt Gingrich controversy, 16-18
 Memorandum of Understanding, 18
 Relationship to University, 18-20
 Relationship with President Siegel, 19-20
 Future of, 22-23
Parking, 9-11, 13, 19
Housing, 9-10, 14-16, 19
Employee Fitness Center, 13
Health Sciences Building, 20
Capital campaign, 21
Football, 22
King & Spalding law firm, 18
King, Ronald E., 9
Kirk, Mark R., 9, 15

Looney, Wilton D., 6-8

Meredith, Thomas C. (Chancellor), 18
Montgomery Ward Company, 1
Motion Industries, 2, 5-7, 20

NAPA Auto Parts, 6-7

Olney, George A., 21

Paonessa, Karen, 22
Papp, Daniel S., 10, 19-22
Prince, Larry L., 7, 8

Radow, Norman J., 9, 15

Siegel, Betty L., 8, 19-20
S.P. Richards Company, 7
St. Joseph's College (Indiana), 1, 22
Stevens, J. Larry, 9, 11, 17-18

TUFF (The University Financing Foundation), 12

United States Navy, 1-5
 Supply Corps School, Athens, Georgia, 2
University of Georgia Foundation, 18-19

Wheeler, Lawrence D., 11
Wicker, Wesley K., 9, 19, 21-23