

COUNCIL ON DEVELOPMENT FINANCE
August 27, 2012

PUBLIC HEARING 386

THOSE PRESENT:

Mr. Fred Sears, Acting Chairperson
Senator Brian Bushweller
Honorable Nancy Cook
Mr. Jack Riddle
Representative Darryl Scott
Mrs. Richelle Vible

Director Alan Levin
Mrs. Rachael Mears
Mr. Stephen Bach
Mr. Gary Smith
Ms. Cassie Robbins
Mrs. Lee Porter
Ms. Beverly Ennis
Ann Marie Johnson, DAG
Mrs. Bernice Whaley
Mrs. Barbara DeHaven
Ms. Nikki Lavoie
Mr. Tim McLaughlin
Ms. Patti Cannon
Mr. Joe Zilcosky
Mrs. Melody Booker

ALSO PRESENT: **Solazyme-Roquette Nutritionals, LLC** – Mr. Jeff Billig; **Rope-It Golf, LLC** – Mr. Louis Girifalco and Mr. Marc Reda and Mr. Richard Bromfield of Dover Federal Credit Union; **All Hallows Revenge, LLC** – Mr. Pete Townsend, Mr. Nathan Edmunds with Applied Bank; **International Marketing Suppliers** – Mr. Frank Nuzzi and Mr. Bruce Hugelmeyer and Mrs. Kerry Mcluskey of Fulton Bank; **Adesis, Inc.** – Mr. Andrew Cottone and Mr. Ving Lee; Mr. Adam Damin – Office of Management and Budget; Mr. Jeff Dayton, Office of U.S. Senator Tom Carper; and Mr. Randall Chase, Associated Press

LOCATION: Haslett Armory, 122 William Penn Street in Dover, Delaware 19901

TIME: 9:00 A.M.

CALL TO ORDER

The meeting was called to order at 9:00 A.M. by Acting Chairman Sears, on Monday, August 27, 2012.

OLD BUSINESS:

Ms. Vible made a motion that the minutes of the July 23, 2012 Council on Development Finance meeting be approved as presented. Mr. Riddle seconded the motion which was then adopted by unanimous vote.

NEW BUSINESS:

Solazyme-Roquette Nutritionals, LLC (“SRN” or the “Applicant”) – The Applicant is requesting a grant from the Delaware Strategic Fund program in the amount of \$150,000. The Applicant proposes to use the funds to help establish its east coast operations in New Castle County, Delaware (the “Project”).

Mrs. DeHaven presented this request to the Council. She stated that Solazyme Inc. is based out of California and Roquette is in Paris. She stated that they were looking to expand in the east coast as a joint venture. She added that the analysis shows that the payback is there.

Mr. Billig stated that this is a 50/50 joint venture between Solazyme and Roquette. He explained that they will be using microalgae as a source of product development. He stated that Solazyme began experimenting with technology and expanded into the food area. He added that Solazyme decided it needed a partner so it looked for a partner with extensive knowledge in food.

Mr. Billig stated that Roquette is a family owned business, headquartered in northern France. He added that Roquette is a global leader in starch processing. He stated that the marriage of Solazyme and Roquette will give them the capability to manufacture and commercialize microalgae-derived oil, protein and fiber based products so that food manufacturers can create healthy products with new ingredients without changing the taste, texture or functionality. These products will provide macro nutrients. Mr. Billig stated that the traditional source of fats and proteins is being driven to a high cost and scarcity position. He stated that the two companies merged together to get algae in a proper system. He added that SRN feels it can be “first in space in the first state”.

Mr. Billig stated that he believes the market needs to be educated about the product and how to use the product. He stated that there are three main reasons why they picked this location to expand: 1) many of the principals live here in Delaware, 2) most of the customers are from the East and Mideast and 3) the time change from here to France is six hours versus nine hours on the West coast. He added that they looked at New Jersey but decided on Delaware. Mr. Billig started worked at ICI in 1989 and he knows that Delaware has a great pro business environment and believes this would be a good fit for SRN.

Acting Chairman Sears asked who would be SRN’s customers. Mr. Billig stated that the customers would include Sears, General Mills, ConAgra, Cadbury, Hershey and Kraft. It was asked what product these customers were using now. Mr. Billig stated that the present sources of protein are whey and soy. He further stated that the product lipid is a new entity and SRN is in the process of convincing customers that they could use SRN’s products instead of using eggs, cream and butter. He stated that this product would cost less and fewer products could be used to achieve the same type of functional use.

Acting Chairman Sears asked how SRN's product tasted. Mr. Billig stated that the protein product has a fairly neutral taste.

Mrs. Vible asked about the office space and the type of workers. Mr. Billig stated that they are looking at 3,500 – 4,000 square feet and hope to employ seventeen people. They hope to hire five to seven people within the next six months. Mr. Billig stated that SRN's financial operation will run out of San Francisco.

Mrs. Vible asked if SRN had found a specific site. Mr. Billig stated that it would be in the Concord Plaza.

Acting Chairman Sears asked if there were any public comments; there were none.

After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the Council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the Project will require a capital investment of at least \$10,000, which funds, including the loan proceeds, will be available or expended on the date on which The Delaware Economic Development Authority disburses the requested loan funds; (iv) the loan will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (v) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance, Mrs. Vible made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of a grant in an amount not to exceed One Hundred Fifty Thousand Dollars (\$150,000) to be disbursed from the Delaware Strategic Fund for the Project, contingent upon the approval remaining in effect through and including August 26, 2013. Mr. Riddle seconded the motion, which was then adopted by unanimous vote.

Rope-It Golf, LLC (“Rope-It” or the “Applicant”) - The Applicant is requesting a participation loan in the amount of \$30,000 from the State Small Business Credit Initiative Loan Program in conjunction with Dover Federal Credit Union. The Applicant proposes to use the funds for working capital and enhanced marketing of its product located at 3 River Road in Wilmington, Delaware (the “Project”).

Mr. Zilcosky presented this request to the Council. Mr. Reda stated that there is a patent pending on this product which is basically a golf ball attached to a string with a bungee cord which extends approximately ten yards.

Mr. Reda stated that they have distributors in France and the Netherlands and have already had three reorders. He stated that there is a 76% markup and the product sells for \$25.00 retail. Mr. Reda stated that they would like to start having KSI produce this product which would create eight additional jobs for KSI.

Mr. Reda stated that Rope-It has been in existence since 2009. He stated that he and Mr. Girifalco met at the University of Delaware. He added that since then, they have reached crucial milestones in finding suppliers, manufacturing the packaging, creating a functional website, purchasing liability insurance, getting an 800 phone number to take orders, etc. He stated that the company is in position right now to distribute the product through the right channels. Mr. Reda stated they needed a marketing budget.

Mr. Reda stated that Rope-It received an SBA loan in 2010 and applied for a second one in 2011, for which they also received approval. Mr. Girifalco stated that they are currently working on producing a television commercial. It is currently running in the Long Island area.

Mr. Bromfield stated the Dover Federal Credit Union (“DFCU”) will be doing a three year loan with a seven year amortization.

Mr. Sears asked if the product was featured in golf magazines or just on the website. Mr. Reda stated that it is just on the website. Mr. Sears asked if they thought they would be producing other products down the road or be bought out. Mr. Girifalco stated that the company has been approached about doing a licensing deal but they haven’t pursued this yet. He stated, however, that they are thinking about other sports products on a rope such as a soccer ball, etc.

Mrs. Riddle asked about the collateral for the DFCU loan – the two partners are putting up their own money, they are paying off the SBA loan, inventory will be collateral and DFCU will be taking personal guarantees and filing a UCC 1.

Mr. Riddle stated that the pro forma was fascinating. It was stated that the infomercial was done; they just have to buy the time. Mr. Riddle asked if this product would be a direct sale where the customer would go directly to Rope-It or would they buy it from a retailer. Mr. Reda stated the product could be purchased from both sources.

Mr. Reda stated that their partners in France and the Netherlands plan on running ads for them. Director Levin suggested to Mr. Reda and Mr. Girifalco that they make sure everyone is focused on the same level.

Mrs. Vible mentioned that Rope-It has an agreement with First Tee program of Delaware and that this is a national program.

Director Levin asked about KSI’s role. Mr. Reda stated that KSI will be doing large quantity orders of twelve or more.

Representative Scott asked how long the infomercial was and was told it was thirty seconds. He further asked if Rope-It was working with a marketing firm. Mr. Girifalco stated he comes from an ad agency and therefore has that background.

Acting Chairman Sears asked if there were any public comments; there were none.

After duly considering, Mr. Riddle made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of this Project under the State Small Business Credit Initiative Program. Mr. Sears seconded the motion, which was then adopted by unanimous vote.

All Hallows Revenge, LLC (“All Hallows” or the “Applicant”) - The Applicant is requesting a participation loan in the amount of \$230,600 from the State Small Business Credit Initiative Loan Program in conjunction with Applied Bank. The Applicant proposes to use the funds to establish a holiday tourist attraction at its facility located at 22518 Lewes Georgetown Road in Georgetown, Delaware (the “Project”).

Mrs. Booker presented this request to the Council. Mr. Townsend stated the Project is successful after overcoming some obstacles. He further stated that it had been decided to add a Halloween event. All Hallows currently has a petting zoo, jumping arena, and a fall festival type of facility. This Halloween function will be an enhancement to the park. There are seven acres of woods which will serve the Halloween project.

Mrs. Booker stated that she has visited the facility and was quite impressed. Mr. Townsend stated that they will hold other activities there and they are currently working with schools to plan some school trips to this venue. He further added that they will market this Project heavily in the spring. Mr. Townsend stated that All Hallows is open thirty-five weekends a year. They are open in the day time from March 15th to November 3rd. Mr. Townsend stated that this Project will create 100 temporary jobs and will keep an additional eight jobs. He stated that next year they will be doing a Christmas lights festival. He stated that they are trying to make this a year around destination.

He stated that the ball teams come from Israel, Australia and from Virginia to New York. He stated that there are 37 teams from New York and New Jersey is probably the biggest user group.

Director Levin stated that All Hallows has done a complete turnaround with the complex. Mr. Townsend stated that this is very unique to Sussex County. He stated that the competition is Ocean City as far as the lights but regarding the haunted woods, the competition would be in Wilmington. He stated that this is more than just a weekend activity.

Director Levin also stated that Applied Bank has done due diligence and obviously feels good with the financing deal. Representative Scott asked about private loans and Mr.

Townsend stated that they have a loan with the Delaware State Police Federal Credit Union which is for his home mortgage.

Mr. Sears stated that he had heard that the Town of Delmar may be trying to do a festival of lights and asked if Mr. Townsend was aware of that happening. Mrs. Booker stated that the owner of the Delmar Speedway, Mr. Cathell may be considering doing something with a festival of lights, but she did not know the details.

Mr. Riddle stated that it is his understanding that All Hallows does not own the ground, and that it is owned by Sports at the Beach, LLC and that All Hallows is renting the land from Softball World and that Softball World is pledging this land as a second position for this Project.

Mr. Edmunds stated that there is an abundance of collateral for the Project. Mr. Bach stated that DEDO is not originating its own Note – it is a participation. He stated that those approvals are in place and this will be a quicker and easier transaction. He added that this is not a direct loan and this also improves DEDO's security position. Mr. Edmunds stated that DEDO is getting paid back in four years and the bank will be paid back in nine years. He added that DEDO has the same collateral and same guarantee as the bank. Mrs. Mears stated that DEDO will be purchasing a piece of the Note.

Acting Chairman Sears asked if there were any public comments; there were none.

After duly considering, Senator Cook made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of this Project under the State Small Business Credit Initiative Program. Mr. Riddle seconded the motion, which was then adopted by unanimous vote.

International Marketing Suppliers (“IMS” or the “Applicant”) – The Applicant is requesting a participation loan in the amount of \$560,000 from the State Small Business Credit Initiative Loan Program in conjunction with Fulton Bank. The Applicant proposes to use the funds to refinance existing debt held by a bank other than Fulton. The company is currently located at 420 Carson Drive in Bear, Delaware (the “Project”).

Mrs. DeHaven and Mr. Smith presented this request to the Council. Mr. Smith stated that IMS has been before the Council before requesting payment adjustments. He stated that DEDO is trying to get a bank to refinance the balloon payment. He stated that it is anticipated that the Strategic Fund loan would be paid off by two home equity loans, and WSFS would have a loan with a fifteen year amortization with a five year balloon at an interest rate of 5.75 percent. Mr. Smith stated that DEDO's SSBCI loan would have a third position mirroring WSFS's loan but with a lower fixed interest rate of 3.75 percent. The SSBCI loan would be repaid in three years.

Mr. Huglemeyer stated that he and Mr. Nuzzi own fifty percent of the entity. He stated there would also be a 504 component to this financing. He stated that the appraisal

recently done, showed a value of \$1,925,000. Mr. Huglemeyer stated that IMS has experienced a significant turnaround from where they were in 2009. He stated that Riverside Specialty Chemical is leasing part of IMS' building and it hires out all of its work. He added that all of Riverside's employees are IMS employees. He explained that Riverside leases a sizable area at IMS, uses IMS employees, owns its own equipment, and has been in the facility since 2006.

Mr. Riddle asked how much new money was involved. It was stated there was no new money. Mrs. Mclusky stated that the appraised value was higher than anticipated, the company was doing much better and a decision was made to help the company. She stated the SSBCI loan would improve the cash flow for IMS. Mr. Smith stated that the Strategic Funds that are being paid back by IMS, will go back into the fund and used for other businesses. Mr. Riddle asked if these transactions were going to happen simultaneously and Mrs. Mclusky stated that she felt that would be the case.

Mrs. Vible stated that it is her understanding that Nuzelmeyer, LLC owns the property and that there is a guarantee from IMS; IMS is guarantor on Fulton Bank's loan and DEDO through the SSBCI program, will be buying part of that loan. Basically, DEDO is lending to the LLC that owns the property.

Mr. Hugelmeyer stated that sales have jumped fifty percent over the last couple of years and the profit is unbelievable. He stated that it has taken a lot of sacrifice and they had a lot of opportunities that have come to fruition. He added that this year is even looking better.

Mr. Nuzzi stated that there are certain products that are made exclusively for IMS. He stated that he also believes there are other opportunities for IMS in the future. IMS is currently working with WhiteOptics. He added that he sees tremendous growth in certain areas and believes they will have to add additional employees.

Acting Chairman Sears asked if there were any public comments; there were none.

After duly considering, Senator Cook made a motion that the Council recommend to Mr. Alan B. Levin, Chairperson, The Delaware Economic Development Authority, approval of this Project under the State Small Business Credit Initiative Program. Representative Scott seconded the motion, which was then adopted by unanimous vote.

Director Levin introduced Mr. Jeff Dayton, of Senator Carper's office to the Council.

Adesis, Inc. ("Adesis" or the "Applicant") - The Applicant is here today to discuss its current compliance status pursuant to its Grant Agreement with the Authority. Ms. Robbins and Mrs. Cannon discussed this project with the Council.

Mrs. Cannon stated that the two remaining partners, Mr. Cottone and Mr. Lee (Mr. Beard recently passed away) are here today to explain why Adesis is in technical default

because of its employment numbers. She stated that a cure report has been submitted which states they will create eighteen new jobs.

Ms. Robbins stated that the cure report was approved and if the requirements are not met, the staff will re-evaluate the situation. She added that DEDO will amend the reporting period to extend all terms to March 1, 2016.

Mr. Cottone stated that they had been dealing with ongoing litigation regarding IP theft in which the Chancery Court has ruled in favor of Adesis. Mr. Cottone stated that they had to put all their energy and money into this court case.

Mr. Lee stated that this has been an ongoing battle for almost eight years. He said that it basically was someone walking out of Adesis' offices and selling the information to another competitor. He added that the partners made a decision that they were going to put a hold on hiring new employees and not replace the ones that left. They thought that would be better than trying to leverage themselves. Mr. Lee continued by saying that Adesis has gone through five years of traumatic changes. They now are having clients coming back to them, saying they are tired of going overseas. Mr. Lee stated that Adesis is finding an ethical concern by contractors over their IP rights. These contractors are concerned that if the product is made overseas, they may be putting their secrets at risk. He added that many of Adesis' competitors that have done this are now having issues. Mr. Lee stated that Adesis is one of the few vendors that is strictly domestic. He believes Adesis can get back on track. Mr. Cottone stated that they have a signed \$150,000,000 contract and anticipate other contracts. He stated that the law suit hurt them a great deal not only in the loss of money to the lawyers but in missed opportunities.

Adesis will now build up their staff and move forward. Mr. Cottone stated they are building a little mini technology park of their own. They have one client in there that has just expanded.

Mr. Sears asked about the current relationship between Adesis and its bank. Mr. Cottone stated that they used to work with Bill Major and had a great twenty year relationship, but he retired. However, when he left, they transferred to WSFS and are happy there now. Mrs. Mears stated she has communicated with the bank and was informed that Adesis is still in good standing.

Mr. Cottone said that this law suit ordeal has cost them millions of dollars. He stated that their out of pocket expenses were in the high six figure range. He added that the legal fees between the two parties were approximately \$4.5 million. The amount of the claim still owed is \$6.7 million plus. However, as of today, they have not received a penny. Mr. Cottone stated that this is all a civil issue. They cannot get into a criminal issue.

The staff will accept Adesis' cure report.

Executive Session – Mrs. Vible made a motion that the Council go into executive session to discuss strategy involving legal advice or opinion from an attorney-at-law, with respect to collective bargaining or pending or potential litigation, in a matter in which an open meeting would have an adverse effect on the bargaining or litigation position of the public body in accordance with 29 Del. C. §10004(b)(4)2. The motion was seconded by Mr. Riddle which was then adopted by unanimous vote.

Mrs. Vible made a motion that the Council go out of executive session. The motion was seconded by Mr. Riddle which was then adopted by unanimous vote.

Director Levin and the Council congratulated and wished Mr. Smith well on his upcoming retirement. They thanked him for his dedication and hard work especially in his determination and role of successfully getting the first financial statements prepared for The Delaware Economic Development Authority.

ADJOURNMENT

The meeting adjourned at 10:45 a.m.

Respectfully submitted,

Lee Porter, Secretary

LKP

cc: Members of the Council on Development Finance
Director Alan Levin
Ann Marie Johnson, Esquire

The next CDF meeting is scheduled for Monday, September 24, 2012 at 9:00 A.M. at Buena Vista.