



**Buffalo and Erie County Regional Development Corporation
Board of Directors Meeting
October 28, 2020**

**@ 12:00 p.m.
Via Conference Call**

- 1.0 Call to Order**

- 2.0 Approval of Minutes**
 - 2.1 Approval of the September 23, 2020 Meeting of the Board of Directors Meeting (Action Item) (Pages 2-4)

- 3.0 Reports / Action Items / Information Items:**
 - 3.1 Financial Report (Informational) (Pages 5-8)
 - 3.2 Finance & Audit Committee Update (Informational)
 - a) 2021 Budget Timetable (Informational) (Page 9)
 - b) Approval of 2021 Budget (Action Item) (Pages 10-14)
 - 3.3 Loan Status Report (Informational) (Page 15)
 - 3.3 Approval of the Following Loan Case(s)
 - a) A Pratt Holdings, LLC /Sherex Fastening Solutions (Action Item) (Pages 16-21)

- 4.0 RDC Lending Department Update:**
 - a) Update on Current Loan Customers (Informational)
 - b) Status of COVID-19 Emergency Relief Business Loan Program (Informational)

- 5.0 Adjournment - Next Meeting – November 18, 2020**

**MINUTES OF THE
MEETING OF THE BOARD OF DIRECTORS
OF THE
BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
(RDC)**

- DATE AND PLACE:** September 23, 2020, held via telephone conference. Governor Cuomo’s Executive Order 202.1, as amended from time to time, issued in response to the Coronavirus (COVID-19) crisis, suspended Article 7 of the Public Officers Law to the extent necessary to permit any public body to take actions without permitting in public in-person access to such meetings and authorized such meetings to be held remotely by conference call or other similar service, provided the public has the ability to view or listen to such proceedings and that the meeting is recorded and transcribed.
- LIVE STREAMED:** This Board meeting is being live-streamed and made accessible on the Erie County Industrial Development Agency website at www.ecidany.com.
- PRESENT:** Denise Abbott, Hon. Diane Benczkowski, Rev. Mark E. Blue, Hon. Joseph Emminger, Hon. Howard Johnson, Tyra Johnson, Richard Lipsitz, Brenda W. McDuffie, Hon. Glenn R. Nellis, Hon. Mark C. Poloncarz, and Sister Denise Roche
- EXCUSED:** Hon. Bryon W. Brown, James Doherty, Dottie Gallagher, Hon. Brian Kulpa, Hon. Darius G. Pridgen, Kenneth A. Schoetz, Renee Wilson and Art Wingerter
- OTHERS PRESENT:** John Cappellino, President & CEO; Mollie Profic, Chief Financial Officer; Atiqah Abidi, Assistant Treasurer; Karen M. Fiala, Vice President/Secretary; Gerald Manhard, Chief Lending Officer; Dawn Boudreau, Director of Compliance; Beth O’Keefe, Business Development Officer; Grant Lesswing, Business Development Officer; Brian Krygier, Systems Analyst; Carrie Hocieniec, Administrative Coordinator; Lori Szewczyk, Director of Grants; Robbie Ann McPherson, Director of Marketing and Communications, and Robert G. Murray, Esq., General Counsel/Harris Beach PLLC
- GUESTS:** Andrew Federick, Erie County Senior Economic Development Specialist; Deputy County Executive Maria Whyte; Alex Carducci on behalf of the City of Buffalo; Kevin J. Zanner on behalf of Hurwitz & Fine; Amber Storr on behalf of Hurwitz & Fine; and Hon. April Baskin, Erie County Legislature

There being a quorum present at 1:00 p.m., the meeting of the RDC Board of Directors was called to order by its Chair, Ms. McDuffie.

MINUTES

The minutes of the August 26, 2020 meeting of the members were presented. Mr. Nellis moved and Mr. Lipsitz seconded, to approve of the minutes. Ms. McDuffie called for the vote, and the minutes were then unanimously approved.

RDC LITIGATION MATTERS

Mr. Emminger moved and Mr. Johnson seconded to enter into Executive Session for the purpose of discussing a current RDC litigation matter. Ms. McDuffie called for the vote and motion was then unanimously approved.

At 1:04 p.m., the RDC entered into Executive Session.

Upon motion made by Sister Denise and seconded by Mr. Johnson, and unanimously approved, the RDC terminated Executive Session at 1:17 p.m.

Sister Denise moved, and Mr. Blue seconded, to accept the staff recommendations with respect to the current RDC litigation strategy. Ms. McDuffie called for the vote and the motion was unanimously approved.

REPORTS/ACTION ITEMS/INFORMATION ITEMS

Financial Report. Ms. Profic presented the August 2020 financial report. Ms. Profic noted that the balance sheet indicates the RDC finished the month with total assets of \$17.2 million and net assets of \$17.0 million. The monthly income statement shows net income of \$6,000 for August. Total revenues were below budget by \$8,000. Loan interest income was under budget by \$5,000. Total expenses were also below monthly budget by \$3,000. The year-to-date income statement shows revenues of \$256,000, including just under \$234,000 of loan interest income. Total expenses of \$334,000 are mainly management fee costs (employees) and professional services (mainly legal and audit costs), for a net loss of \$77,000 through August. Ms. McDuffie directed that the report be received and filed.

Finance and Audit Committee Update. Ms. Profic gave a report to the members on the joint Finance & Audit Committee meeting held on September 16, 2020. At this meeting the Committee reviewed and recommended the proposed IDA bond issuance for Related Affordable, LLC, reviewed again the 2021 budget process and timetable and reviewed the proposed budgets of the ECIDA, RDC and ILDC. There will be two voluntary Board Q&A educational sessions that will be held on October 2 and October 6. The Committee voted to recommend the proposed 2021 budgets of all three entities, subject to changes of greater than \$100,000 on any one budget line. If there are additional adjustments to the budget that need to be reviewed, the Committee will convene in October. Ultimately, the Board will be asked to take action on the budget in October for submission to the ABO by the November 1 deadline. The Committee also approved

the retention of Freed Maxick as independent auditors for the ECIDA, RDC and ILDC 2020 financial statement audits.

Ms. Profic reviewed RDC’s proposed budget for 2021 and explained the changes to the budget for 2021, along with risk factors impacting the budget. Budgeted revenues consist mainly of interest income from loans, at \$540,000 based on anticipated \$3M of loans closed by the end of 2020. Budgeted expenses are made up mainly of the ECIDA Management Fee (salary and benefit costs of ECIDA staff based on time spent on RDC business) and a provision for loan losses, estimated at 1.9% of projected outstanding loans, \$250,000 to be conservative. The budgeted figures result in a budgeted net loss of \$155,000. Ms. McDuffie directed that the report be received and filed.

RDC LENDING DEPARTMENT UPDATE

RDC Loan Status Report. Mr. Manhard presented this report. Ms. McDuffie directed that the report be received and filed.

Update on Current Loan Customers. Mr. Manhard presented this report. Ms. McDuffie directed that the report be received and filed.

Status of COVID-19 Emergency Relief Business Loan Program. Mr. Manhard gave a status update to members. Ms. McDuffie directed that the report be received and filed.

MANAGEMENT TEAM REPORT

Mr. Cappellino presented the management team report. Ms. McDuffie directed that the report be received and filed.

There being no further business to discuss, Ms. McDuffie adjourned the meeting of the Agency at 1:26 p.m.

Dated: August 26, 2020

Karen M. Fiala, Secretary

Regional Development Corporation

Financial Statements

As of September 30, 2020

REGIONAL DEVELOPMENT CORPORATION ("RDC")

Balance Sheet
September 30, 2020

	September 2020	August 2020	December 2019
ASSETS:			
Restricted Cash**	\$ 7,472,133	\$ 7,443,198	\$ 7,650,215
Direct Loans *	11,483,436	11,481,369	11,430,831
50/50 Bank Participation Loans *	149,514	153,441	184,723
Reserve for Loan losses	<u>(1,882,360)</u>	<u>(1,882,360)</u>	<u>(1,895,963)</u>
Total Loan Assets, net	<u>9,750,589</u>	<u>9,752,449</u>	<u>9,719,590</u>
TOTAL ASSETS	<u>\$ 17,222,722</u>	<u>\$ 17,195,647</u>	<u>\$ 17,369,805</u>
LIABILITIES & NET ASSETS			
Accounts Payable	\$ -	\$ -	\$ 23,723
Due to ECIDA	<u>258,662</u>	<u>229,912</u>	<u>303,021</u>
Total Liabilities	<u>258,662</u>	<u>229,912</u>	<u>326,743</u>
Restricted Fund Balance	<u>16,964,060</u>	<u>16,965,735</u>	<u>17,043,062</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 17,222,722</u>	<u>\$ 17,195,647</u>	<u>\$ 17,369,805</u>

* Loan Portfolio Summary:	September 2020	August 2020	December 2019
# of Direct Loans	36	35	39
# of 50/50 Bank Participation Loans	1	1	1
	<u>37</u>	<u>36</u>	<u>40</u>

** Cash is invested in interest bearing accounts at M&T Bank. The maximum FDIC insured amount is \$250,000, with the remainder collateralized with government obligations by the financial institution.

REGIONAL DEVELOPMENT CORPORATION ("RDC")
Income Statement
Month of September 2020

	Actual vs. Budget		
	Actual	Budget	Variance
REVENUES:			
Interest Income - Loans	\$ 36,834	\$ 39,167	\$ (2,333)
Interest Income - Cash & Inv.	581	1,417	(835)
Administrative Fees	-	833	(833)
Other Income	194	1,250	(1,056)
Total Revenues	37,609	42,667	(5,058)
EXPENSES:			
Management Fee - ECIDA*	26,667	26,667	(0)
Rent & Facilities Expenses	2,083	2,083	0
Professional Services	10,414	2,500	7,914
General Office Expenses	-	200	(200)
Other Expenses	120	606	(486)
Total Expenses	39,284	32,056	7,228
NET INCOME/(LOSS):	\$ (1,675)	\$ 10,610	\$ (12,286)

* Represents an allocation of salary and benefit costs from the ECIDA based on time charged to RDC. The amount booked reflects 2020 budgeted figures.

REGIONAL DEVELOPMENT CORPORATION ("RDC")

Income Statement

Year to Date: September 30, 2020

	Actual vs. Budget			Actual vs. Prior Year		
	Actual	Budget	Variance	Actual	Prior Year	Variance
REVENUES:						
Interest Income - Loans	\$ 270,476	\$ 352,500	\$ (82,024)	\$ 270,476	\$ 389,664	\$ (119,188)
Interest Income - Cash & Inv.	13,440	12,750	690	13,440	30,037	(16,597)
Administrative Fees	8,000	7,500	500	8,000	1,825	6,175
Other Income	1,956	11,250	(9,294)	1,956	2,088	(132)
Total Revenues	293,872	384,000	(90,128)	293,872	423,613	(129,741)
EXPENSES:						
Management Fee - ECIDA*	240,000	240,000	-	240,000	262,800	(22,800)
Provision for Loan Losses	(13,603)	150,000	(163,603)	(13,603)	1,506,403	(1,520,006)
Rent & Facilities Expenses	18,750	18,750	-	18,750	17,100	1,650
Professional Services	120,863	37,800	83,063	120,863	35,754	85,109
General Office Expenses	111	1,800	(1,689)	111	1,113	(1,001)
Other Expenses	6,753	5,456	1,297	6,753	2,000	4,753
Total Expenses	372,874	453,806	(80,932)	372,874	1,825,169	(1,452,295)
NET INCOME/(LOSS):	\$ (79,002)	\$ (69,806)	\$ (9,196)	\$ (79,002)	\$ (1,401,556)	\$ 1,322,554

* Represents an allocation of salary and benefit costs from the ECIDA based on time charged to RDC. The amount booked reflects 2020 budgeted figures.

**ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY (ECIDA)
 BUFFALO & ERIE COUNTY REGIONAL DEVELOPMENT CORP (RDC)
 BUFFALO & ERIE COUNTY INDUSTRIAL LAND DEVELOPMENT CORP (ILDC)**

2021 Budget Review Process

<u>Date</u>	<u>Description</u>	
July-August	Review of draft 2021 budgets by ECIDA management. (a) Prioritize any proposed budget requests for initiatives. (b) Formal budget requests compiled.	✓
August 18 th	Finance & Audit Committee meeting – initial review of proposed budgets.	✓
September 16 th	Finance & Audit Committee meeting to discuss any updates/recommend proposed budgets to Boards.	✓
September 23 rd	Review of 2021 draft budgets at Board meetings.	✓
October 2 nd at 10:00 a.m.	Board Q&A budget session #1 (voluntary).	✓
October 6 th at 2:00 p.m.	Board Q&A budget session #2 (voluntary).	✓
October	Adjustments to budget based on Board feedback and Finance & Audit Committee approval of final budgets (<i>if necessary</i>).	
October 28 th	Board meeting – action to approve final 2021 budgets.	
November 1 st	Deadline for final approved budget to be submitted to the ABO.	

Regional Development Corporation
2021 Proposed Budget

Regional Development Corporation (RDC)

2021 Budget + 3 Year Forecast

The Buffalo and Erie County Regional Development Corporation (“RDC”) presently has one activity – the operation of a federally restricted revolving loan fund (“RLF”) that provides loans to eligible businesses that would not otherwise be able to obtain such financing from normal commercial sources. A second RLF has been approved under the Federal Coronavirus Aid, Relief and Economic Security (“CARES”) Act and is expected to be underway by the end of 2020. As such, the budget for 2021 includes estimated figures for both RLFs.

A. Key Budget Assumptions:

In 2021, the RDC expects to fund new loans of approximately \$5.5 million. This is expected to be offset by approximately \$1.7 million in loan repayments to the RLFs. Interest income on loans is expected to be approximately \$540,000 for 2021, which represents a 15% increase from the \$470,000 budget for 2020.

B. Overview of Changes in 2021 Budget:

The following summarizes the key changes between the 2021 budget and the projected 2020 results:

- Budgeted interest income from loans is \$540,000 in 2021, compared to a projected \$331,000 in 2020. In 2020, many loans in the current portfolio deferred several months’ principal and interest due to the Covid-19 pandemic. With normal payments resuming in late 2020 and the establishment of a second RLF, interest income is expected to increase in 2021.
- The ECIDA Management Fee represents a fee charged by the ECIDA for services that its employees provide to the revolving loan fund, since RDC has no employees of its own. The fee is expected to increase by approximately \$6,000 or 2% in 2021 due to increases in salaries and benefits.
- The budgeted amount for the provision for loan losses is \$250,000 for 2021. The provision represents approximately 1.9% of the estimated active loan portfolio balance. The mission of the RDC is to deal primarily with businesses unable to adequately finance operations through normal commercial banking channels. Historically, the loan fund has been a working capital lender, rather than a fixed asset lender, taking junior collateral positions. The CARES Act RLF is planned to have a higher risk tolerance than our legacy RLF, which will likely result in higher loan losses. The \$250,000 provision for loan losses is net of any anticipated collateral sales and SBA and other guarantees (if applicable). Currently, the charge-off rate for loans issued over the past 10 years is approximately 2% versus a historical portfolio charge-off rate of approximately 14%.

Regional Development Corporation (RDC)
2021 Budget + 3 Year Forecast

C. Summary of Risk Factors Impacting the 2021 Budget:

The following significant risk factors may influence the 2021 budget:

1. Due to the numerous uncertainties, including the recent pandemic, value of collateral, guarantees, etc., RDC's actual loan losses may vary significantly from the loan loss amount budgeted.
2. Interest income may vary from the budgeted amount as the budget is based on an estimate of active loans. Due to economic factors and the overall business climate, loans closed could vary significantly from estimates.

REGIONAL DEVELOPMENT CORPORATION ("RDC")
Proposed Budget for 2021

	Proposed Budget 2021	Approved Budget 2020	Projected 2020	Actual 2019
REVENUES:				
Interest Income - Loans	\$ 540,000	\$ 470,000	\$ 360,635	\$ 490,376
Interest Income - Cash & Investments	2,000	17,000	15,090	38,110
Administrative Fees	15,000	10,000	8,000	8,825
Other Income	5,000	15,000	2,608	5,842
Total Revenues	562,000	\$ 512,000	386,333	543,153
EXPENSES:				
ECIDA Management Fee*	\$ 320,000	\$ 320,000	\$ 314,000	\$ 279,988
Provision for Loan Losses**	250,000	200,000	(13,603)	1,446,153
Rent & Facilities Expenses	25,000	25,000	25,000	22,344
Professional Services	90,600	30,775	139,050	69,619
General Office Expenses	30,200	16,800	6,922	2,146
Other Expenses	1,775	7,900	1,972	2,536
Total Expenses	717,575	600,475	473,341	1,822,786
NET INCOME/(LOSS):				
	\$ (155,575)	\$ (88,475)	\$ (87,008)	\$ (1,279,633)

* Represents an allocation of salary and benefit costs from the ECIDA based on staff time charged to the RDC.

** Estimated 2021 Loan Balance	\$ 13,217,000
Provision for Loan Losses	\$ 250,000
Percentage of Loans	1.9%

REGIONAL DEVELOPMENT CORPORATION ("RDC")
Proposed Three Year Forecast 2022-2024

	Proposed Budget 2021	Forecast 2022	Forecast 2023	Forecast 2024
REVENUES:				
Interest Income - Loans	\$ 540,000	\$ 545,000	\$ 550,000	\$ 555,000
Interest Income - Cash & Investments	2,000	15,000	15,000	15,000
Administrative Fees	15,000	15,000	15,000	15,000
Other Income	5,000	10,000	10,000	10,000
Total Revenues	562,000	585,000	590,000	595,000
EXPENSES:				
ECIDA Management Fee*	\$ 320,000	\$ 330,000	\$ 330,000	\$ 335,000
Provision for Loan Losses	250,000	175,000	150,000	150,000
Rent & Facilities Expenses	25,000	25,000	25,000	25,000
Professional Services	90,600	50,000	50,000	50,000
General Office Expenses	30,200	900	900	900
Marketing & Other Expenses	1,775	5,000	5,000	5,000
Total Expenses	717,575	585,900	560,900	565,900
NET INCOME/(LOSS):				
	\$ (155,575)	\$ (900)	\$ 29,100	\$ 29,100

* Represents an allocation of salary and benefit costs from the ECIDA based on staff time charged to the RDC.



Loan Status Report September 23, 2020 – October 27, 2020

<u>RDC Loans Approved Since Last Meeting</u>	<u>Municipality</u>	<u>Amount</u>
(None)		

<u>RDC Loans Closed Since Last Meeting</u>	<u>Municipality</u>	<u>Amount</u>
(None)	Williamsville	\$ 50,000

<u>Loans in Closing Process</u>	<u>Municipality</u>	<u>Amount</u>
Biz Win Strategies	Williamsville	\$ 50,000

<u>Loans in the Pipeline</u>	<u>Municipality</u>	<u>Amount</u>
A Pratt Holdings, LLC	Tonawanda	\$1,000,000
Affordable Technology Solutions, LLC	Clarence	\$ 50,000
Bhavani Group, Inc.	Cheektowaga	\$ 50,000
Flex-E-Brick Products, Inc.	Lackawanna	\$ 50,000
HRB Hotels, Inc.	Amherst	\$ 50,000
Med Lab, Inc.	Cheektowaga	\$ 400,000
RJL Collision	Buffalo	\$ 50,000
Total		<u>\$1,650,000</u>

<u>2020 - Loans Closed</u>	<u>YTD Loan Total</u>	<u>Jobs to be Created</u>	<u>Retained Jobs</u>	<u>Dollars Leveraged</u>
2	\$1,650,000	0	59	\$7,400,000

Loan Portfolio Performance

Past Due Loans:

<u>Loan</u>	<u>Outstanding Balance</u>	<u>Amount Past Due</u>	<u>Days Past Due</u>	<u>Comments</u>
NONE				

Loans in Default (Legal Action):

<u>Borrower Name</u>	<u>Amt Approved</u>	<u>Outstanding Loan Balance</u>	<u>Comments</u>
Buffalo Forklift	\$1,500,000	\$1,427,975	Legal Discovery Process
Adiabatic Solutions	\$ 250,000	\$ 250,000	Legal Summary Judgment Filed
HarkerBio, LLC	\$ 500,000	\$ 105,286	Demand Letter to Guarantor
Great Lakes Concrete	\$ 500,000	\$ 43,067	Negotiating Payoff Arrangements
Totals	\$2,750,000	\$1,826,328	

Portfolio Delinquency Rate (Past Due Outstanding Loan Balance *divided by* Portfolio Balance):

\$1,826,328 / \$11,632,640 = **15.7%**



RDC Loan Analysis

Borrower:	A. Pratt Holdings LLC, Sherex Fastening Solutions LLC, Disc-Lock LLC	Structure:	LLC	Year Established:	10/2004
Address:	400 Riverwalk Parkway, Suite 600	City:	Tonawanda	Zip:	14150
Type of Business:	Manufacturer	NAICS:	423840 & 332722	SIC:	5084
Loan Amount:	\$1,000,000	Interest Rate:	4%	Term:	120
Monthly Payment:	\$10,124.51	Contact Name:	Adam Pratt	Site Visit:	N/A
Purpose:	Working Capital, Equipment, Inventory	Jobs Existing:	30 (Tonawanda) 55 - total	Jobs to be Created:	4

SOURCES AND USES

Sources:	Amount	% of Project
RDC Loan	\$1,000,000	100%
Equity	N/A	0%
Total Sources	\$1,000,000	100%
Uses:	Amount	
RDC Loan		
Working Capital (payroll)	\$550,000	55%
Equipment	\$150,000	15%
Inventory	\$300,000	30%
Equity	N/A	0%
Total Uses	\$1,000,000	100%
Dollars Leveraged:	Waived by the EDA	0%

COLLATERAL AND SECURITY

Collateral:	2 nd lien on all business, 2 nd lien on life insurance policy of A. Pratt \$1,500,000, 2 nd lien on the personal residence of A. Pratt located at 68 Norwood Avenue, Buffalo, NY
Guarantors:	Unlimited personal guaranty of Adam D. Pratt

SUPPLEMENTAL INFORMATION

Fund Criteria:	Job Creation: <input type="checkbox"/> Job Retention: <input checked="" type="checkbox"/> Target Industry: <input type="checkbox"/> MWBE: <input type="checkbox"/>
Eligibility:	Bank Declination: <input type="checkbox"/> Financing Gap: <input type="checkbox"/> Business adversely impacted by COVID-19: <input checked="" type="checkbox"/>
Recommended By:	Gerald Manhard , Chief Lending Officer and Daryl Spulecki, Credit Analyst
Loan Committee Vote:	Approved: <input type="checkbox"/> Declined: <input type="checkbox"/>
Date:	Signatures:

I. Strengths and Weaknesses:

Strengths:

- A. Pratt Holdings has two related companies with common ownership (Adam Pratt/Sherex Fastening Solutions) currently has two RDC Loans totaling \$626k and both loans have been paid as agreed.
- Historically, the company has demonstrated strong revenue and profitability trends since the inception of the relationship in 2010. All debt with various lending institutions has been handled as agreed with no covenant violations noted by the lead bank, Five Star Bank.
- Historical and projected income are sufficient to service all existing debt plus the new RDC loan.
- Client base is diversified and with larger companies and generally pay within terms granted.
- In addition to their long standing, existing customer base, the Company has secured new contracts with reputable and respected firms in the industrial, automotive, agricultural, and construction equipment markets. The contracts should remain on going due to the patents the company holds on their products.
- Proprietary and patented products.
- The new office opened in the UK will generate future opportunities currently not realized.
- Products are sold to manufacturers throughout the world including the countries of Mexico, Europe, Asia-Taiwan, China, and Ireland to name a few.
- Strong, experienced management team that has 10+ years average experience.

Weaknesses:

- Company is highly leveraged as the result of the buyout of a former owner.
- A future outbreak of COVID-19 could severely impact business both domestically and internationally, ultimately affecting the profitability of the company.
- Collateral securing loan is limited.
- Personal Guarantor has modest personal assets in relation to company debt.

II. Recommendation:

Based on the above strengths listed, it is recommended the \$1,000,000 RDC Term Loan be approved. A summary of the recommended loan terms follows:

Loan Amount: \$1,000,000
Interest Rate: 4%
Loan Amortization: 120 months
Loan Term: 120 months
Monthly P & I payment: \$10,124.51

Security/Collateral:

- 2nd lien on all business assets of the company(s).
- Unlimited personal guarantee of Adam D. Pratt.
- 2nd lien (continued) on Adam Pratt's Life Insurance valued at \$1.5 million.
- 2nd lien on the personal residence of Adam Pratt located at 68 Norwood Ave, Buffalo, NY.
- 1st lien on equipment purchased with RDC Loan Proceeds (approximately \$150k).

Loan Conditions:

- Annually, receipt of audited financial statements and/or Federal Tax Returns containing all schedules within 120 days of Year End.
- Receipt of quarterly interim financial statements (P&L and balance sheet).
- Annually, receipt of personal Federal Tax Returns with all schedules for each guarantor(s) within 120 days of Year End.
- Receipt of annual Personal Financial Statements for all guarantor(s).

- Annual receipt of employment survey.
- Annual site visit by RDC staff.
- Closing costs to be paid by the borrower.

III. Job Creation/Retention:

- The RDC term loan will help retain 30 full time equivalent positions at their Tonawanda Location and hire 2 additional employees (engineer and sales rep. The two additional employee's salaries will total \$150,000.
- Without the RDC Term Loan the company will not be able to fulfill their contractual obligations and will subsequently have to lay off some of their staff and freeze all hiring of new employees.
- Over the next 3 years, the company is projecting to hire 5 people (3 engineers and 2 sales reps).

IV. RDC Existing Relationship:

- A. Pratt Holdings/Sherex Fastening Solutions LLC has an existing loan with the RDC that was approved for \$750,000 and currently has an outstanding balance of \$463,731. Proceeds were used to buyout a former partner. All payments have been made as agreed since the inception of the loan in March 2017.
- Disc Lock, LLC/Sherex Fastening Solutions LLC received a \$325,000 loan from the RDC in May 2016. Proceeds were used to purchase the Disc Lock business and relocate the operation from California to Tonawanda. The balance on the loan is \$162,276. All payments have been made as agreed.
- Over the next 3 years, the combined balances of the two existing loans is \$626,007.
- Additionally, Sherex Fastening Solutions LLC received an RDC loan for \$400,000 in April 2010. The loan has been paid in full, with no issues noted.

V. Background:

A Pratt Holdings LLC was formed in New York State in February 2016 and is 100% owned by Adam D. Pratt. The business is a holding company designed to hold the various ownership interests of Mr. Pratt. A Pratt Holdings LLC owns 100% of Sherex Fastening Solutions, 90% of Disc-Lock LLC, 50% of 850 Moe Drive, LLC, 80% of Sherex Mexico, 47% of Sherex Taiwan, LLC, and his 100% interest in Sherex UK. All of A. Pratt Holdings businesses either manufacture and/or sell various specialty fasteners to distributors, primarily in the industrial, automotive, agricultural, and construction equipment markets. The exception is 850 Moe Drive LLC as the company is a real estate holding company and this property is solely rented to Sherex Fastening Solutions LLC at their Akron, Ohio facility. Sherex Fastening Solutions and Disc-Lock are headquartered at 400 Riverwalk Parkway Tonawanda NY 14150.

Though A. Pratt Holdings is relatively new company, Sherex Fastening Solutions was founded in 2004, Disc Lock LLC was established in 1996, Sherex-Taiwan was created in 2005, Sherex-Mexico founded in 2009, and Sherex-UK was formed in 2019.

Sherex Fastening Solutions LLC is a designer/distributor of blind rivet nuts, rivet nut installation tools, brass inserts to join metal, plastics, and other materials together. They also design installation tools/systems and robotics, as well as vibrational loosening prevention washers and nuts. Many of the products they have designed are patented. Their products are used in the Automotive, Aerospace, Agriculture, Defense, Heavy Truck, Green Energy, Railroad, General Industrial and Construction Equipment markets.

The company's global headquarters is located at the Riverview Solar Energy Park in Tonawanda, NY, which also serves as a warehouse/distribution hub. Sherex also has a facility in Akron Ohio that primarily manufactures a line of rivets, nuts, and other fasteners. The company is ISO9001 and AS9100 certified.

Disc Lock, LLC is a manufacturer and designer of patented, highly specialized vibration proof fastening systems used in a variety of applications worldwide. The company's products are used by the US Department of Transportation Federal Railroad Systems, military, buses, rail manufacturers, and wind energy equipment makers.

850 Moe Drive, LLC was formed for the sole purpose of being a real estate holding company for the Akron Production facility. All rent received by the company is paid by Sherex Fastening Solutions, LLC.

Affiliated companies of A. Pratt Holdings:

Sherex-Taiwan Company, LLC is a manufacturing operation that produces specialized nuts, rivets, fasteners, and customizable designs for Sherex and its related entities. The production equipment is highly automated and gives the company the ability to produce parts from various metals. The production facility is ISO/TS 16949 certified which means it meets all international standard to produce auto parts.

Sherex Mexico and Sherex UK are primarily sales offices to contact manufacturers and prospects in their respective Countries. They also have the ability to warehouse parts on a smaller scale.

VI. Project Description:

Like most companies in NYS and across the United States, A Pratt Holdings LLC /Sherex Fastening Solutions LLC (SFS) and related companies have been adversely affected by the COVID-19 Pandemic. Revenue and profits for SFS have been tampered down and have put financial strain on the company as customers have been reducing or delaying orders. Prior to the COVID-19 outbreak, the company has been successful in acquiring contracts with large companies and was projecting a record sales year. Many of these contracts were with large, reputable manufacturers in the automotive, agriculture, refrigeration and transportation industries. SFS has deployed its resources towards fulfilling these contracts only to find the orders have been delayed or pushed out due plant closures, supply chain issues, and employee illness related to the COVID-19 pandemic. SFS was approved for a \$726,000 PPP SBA loan that has been used 100% on payroll to keep current employment levels. Their accountant has verified that the entire PPP loan should be forgiven based on current SBA rules.

The company now finds itself experiencing cash flow issues to support their payroll. Over the past three months orders for their products have spiked due to manufacturers across the US and world starting to resume normal production levels. This trend is projected for the remainder of 2020 and 2021. The primary issue facing SFS is the short-term working capital needed to fulfill their customer orders.

A Pratt Holdings/Sherex Fastening Solutions (SFS), has approached the RDC for a \$1 million working capital loan to support the working capital needed to fulfill their customer orders. Specifically, the funds will be used for: \$200k for payroll support/employee retention, \$150k for 2 new employees, \$300k for inventory, \$200k for A/P support and \$150k in equipment for the Tonawanda location. The proposed RDC loan would GAP the financing needed by SFS to produce more product and meet contractual obligations. Otherwise, the company will have to resort to employee layoffs and other cost cutting measures to alleviate their cash flow constraints.

SFS has approached their current bank, Five Star, to provide \$1 million to support their working capital needs. Five Star Bank declined their request as the current business environment was deemed to risky due to the COVID-19 pandemic and the company was leveraged.

The EDA has relaxed their RLF regulations to support businesses affected by the COVID-19 Pandemic. For a 1 year period and expiring in May, 2021, the EDA RLF will no longer require a bank declination letter, private leveraging of 2:1 (portfolio basis), and interest rates set at the lower of 4% or 75% of the Prime Lending Rate.

VII. Company Ownership and Management:

- Adam Pratt is the sole managing member (100% owner) of A Pratt Holdings LLC and Sherex Fastening Solutions, LLC.
- Mr. Pratt also owns 90% of Disc-Lock, LLC and 50% of 850 Moe Drive, LLC.
- His primary role is to oversee the operations of all aspects of his company including, sales, production, finances, etc.
- Mr. Pratt began working for Sherex Fastening Solutions, LLC (SFS) in 2001 where he was responsible for the growth in the company's blind rivet nut segment. Prior to working with SFS and through his college years he worked in various capacities at his father's screw machine shop in Syracuse. Adam graduated from the University of Rochester with a degree in Economics and is a 2011 graduate of the UB Executive MBA Program.
- Adam's ownership is only 50% in 850 Moe Drive LLC (R/E Holding Company). His former partner, James Pickren owns the other 50%. Though Mr. Pratt bought out Pickren's ownership interest in Sherex, part of the buyout agreement called for Mr. Pickren to retain 50% ownership in the real estate holding company. Mr. Pickren has no business interest or decision making in any of A. Pratt Holdings companies.

A Pratt Holdings has hired strategic employees with vast experience in their respective fields to help ensure the overall success of the organization. Adam Pratt has empowered and trusts his team to make critical operational decisions in a timely fashion.

VIII. Market Analysis:

A Pratt Holdings/Sherex Fastening Solutions (SFS) core competencies that provide a competitive advantage over market competitors include the variety of fasteners offered, diversified client portfolio, international offices located in Taiwan, Mexico, and the U.K, and most importantly, customizable solutions for their customers.

Demand for fasteners globally is largely tied to the level of US manufacturing production. Generally, as US manufacturing expands or contracts, the world's manufacturers seem to follow suit. Demand for specialized fasteners is projected to continue to grow as companies are seeking more effective ways to assemble products and streamline production facilities. Global demand is expected to continue to increase as the demand from China, India and other third world countries continues to grow.

SFS is among the five largest value-added distributor of blind rivet nuts in the US and the fastest growing rivet nut provider in the US due to its introduction of several new products over the last few years. The company's largest competitors are:

- **AVK Industrial Products:** Established in 1983, AVK manufactures a similar line of blind rivet nuts and pneumatic, hydraulic, and hand-held installation tools for the transportation and industrial markets. This company is owned by Precision Castparts Corp., a publicly traded company purchased by Berkshire Hathaway. The company is based in and has manufacturing operations in California.
- **Bollhoff Rivnut Inc.** Founded in 1992 this company was purchased in 2000 by a German company; Bollhoff GmbH & Co. KG. Bollhoff primarily sells to the auto market. The company is based in Kendallville, Indiana.

- Penn Engineering & Manufacturing, a privately held company diversified in design, manufacturing, and distribution of fasteners for a variety of industries. The company is based in Danboro, PA with additional facilities in Winston-Salem, NC, the UK, Singapore, Ireland, and China. Only 5% of the company's sales are attributed to blind rivet nuts.

SUPPLEMENTAL INFORMATION

RDC Loan Eligibility:

- The business is an eligible NAICS sector (453998) under the RDC Loan Administration Plan.
- The loan will assist with the businesses working capital, equipment, and inventory needs and enable it to overcome the economic downturn caused by Covid-19.
- The loan will enable the business to retain 30 employees and hire two additional employees.