



**Buffalo and Erie County Regional Development Corporation
Board of Directors Meeting**

November 29, 2017

@ 9:00 a.m.

95 Perry Street

5th Floor - ESD Conference Room

Buffalo, New York 14203

- 1.0 Call to Order**
- 2.0 Approval of Minutes**
 - 2.1 Approval of the October 25, 2017 Minutes of the Board of Directors Meeting (Pages 2-3)
- 3.0 Reports / Action Items / Information Items:**
 - 3.1 Financial Report (Pages 4-7)
 - 3.2 2017 - RDC Loan Status Report/RDC Closing Schedule (Pages 8-9)
- 4.0 Approval of the Following Loan Cases:**
 - 4.1 Buffalo Forklift, LLC (Pages 10-13)
 - 4.2 Harker Bio, LLC/Harker Holding, LLC (Pages 14-19)
- 5.0 Adjournment - Next Meeting December 20, 2017**

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

- DATE AND PLACE:** October 25, 2017, at the Erie County Industrial Development Agency, 95 Perry Street, 5th Floor ESD Conference Room, Buffalo, New York 14203
- PRESENT:** Rev. Mark E. Blue, James F. Doherty, Tyra Johnson, Richard Lipsitz, Jr., David L. Lowrey, Brenda W. McDuffie, Hon. Glenn R. Nellis, Louis Panzica, Hon. Mark C. Poloncarz and Sister Denise Roche
- EXCUSED:** Hon. Diane Benczkowski, Hon. Byron W. Brown, Hon. Joseph H. Emminger, ~~Dottie Gallagher-Cohen~~, ~~Hon. Joseph C. Lorigo~~, John J. Mudie, Hon. Darius G. Pridgen, Paul V. Vukelic and Hon. Barry A. Weinstein
- OTHERS PRESENT:** Steve Weathers, Chief Executive Officer; John Cappellino, Executive Vice President; Mollie Profic, Treasurer; Karen M. Fiala, Assistant Treasurer; Gerald Manhard, Chief Lending Officer; and Pietra G. Zaffram, Assistant Secretary
- GUESTS:** Andrew Federick, Erie County Senior Economic Development Specialist; Maria Whyte, Deputy County Executive

The meeting was called to order by Ms. McDuffie at 4:47 p.m.

MINUTES

The Minutes of the September 27, 2017, meeting of the Board of Directors of the RDC were presented. Mr. Poloncarz moved, and Mr. Lorigo seconded, to approve of the minutes. Ms. McDuffie called for the vote and the minutes were unanimously approved.

REPORTS/ACTION ITEMS/INFORMATION ITEMS:

Financial Report. Ms. Profic reviewed the September, 2017 Financial Statements, noting the balance sheet shows that the RDC finished September with total assets of \$18.6 million and net assets of \$18.4 million. The monthly income statement reports net income of \$7,000 for September. Operating revenue of \$46,500 was ahead of budget by \$9,000. Total expenses were under budget by \$5,300. The year-to-date income statement shows revenue of \$358,000, being \$20,000 ahead of budget for the year, along with expenses of \$333,000, being \$137,000 under

budget. The result is net income of \$25,000 through September, 2017. Ms. McDuffie directed that the report be received and filed.

Proposed Budget Timetable. Ms. Profic gave an overview of where the Agency is in the budgeting process, noting that the RDC is ready to approve the budget as presented at the last meeting so that it may be submitted to the ABO by the November 1st deadline.

Approval of 2018 Operating Budget. Ms. Profic noted that there have been no changes in the RDC's draft budget for 2018 since it was presented at the September 2017 RDC meeting. Upon a motion made by Mr. Poloncarz and seconded by Rev. Blue to approve the 2018 RDC Operating Budget. Ms. McDuffie called for the vote and the 2018 RDC Operating Budget was unanimously approved.

RDC Loan Status Report/RDC Closing Schedule. Mr. Manhard presented this report, noting that Thin Man Brewery was recently approved by the RDC Board. Mr. Manhard reported that year-to-date the RDC has closed 6 loans in the amount of \$1.8 million. Ms. McDuffie directed that the report be received and filed.

There being no further business to discuss, upon motion made by Mr. Poloncarz and seconded by Ms. Johnson, the meeting was unanimously adjourned.

Dated: October 25, 2017

Pietra G. Zaffram, Assistant Secretary

Regional Development Corporation
Financial Statements
As of October 31, 2017

REGIONAL DEVELOPMENT CORPORATION ("RDC")
Balance Sheet
October 31, 2017

	October 2017	September 2017	December 2016
ASSETS:			
Restricted Cash**	\$ 9,654,651	\$ 9,593,546	\$ 2,414,368
Sequestered Cash**	-	-	6,482,286
Direct Loans *	9,005,350	9,031,155	9,757,152
50/50 Bank Participation Loans *	304,354	308,978	355,227
Reserve for Loan losses	(335,953)	(335,953)	(299,083)
Total Loan Assets, net	<u>8,973,750</u>	<u>9,004,180</u>	<u>9,813,296</u>
TOTAL ASSETS	<u>\$ 18,628,401</u>	<u>\$ 18,597,726</u>	<u>\$ 18,709,950</u>
LIABILITIES & NET ASSETS			
Accounts Payable	\$ 3,000	\$ 3,755	\$ 16,757
Due to ECIDA	266,568	236,708	361,291
Total Liabilities	<u>269,568</u>	<u>240,463</u>	<u>378,048</u>
Restricted Fund Balance	<u>18,358,834</u>	<u>18,357,263</u>	<u>18,331,902</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 18,628,401</u>	<u>\$ 18,597,726</u>	<u>\$ 18,709,950</u>

* Loan Portfolio Summary:	October 2017	September 2017	December 2016
# of Direct Loans	46	46	48
# of 50/50 Bank Participation Loans	4	4	6
	<u>50</u>	<u>50</u>	<u>54</u>

** Cash is invested in interest bearing accounts at KeyBank. 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 October 2017

	Actual vs. Budget		
	Actual	Budget	Variance
REVENUES:			
Interest Income - Loans	\$ 32,793	\$ 35,000	\$ (2,207)
Interest Income - Cash & Inv.	827	687	141
Administrative Fees	-	1,250	(1,250)
Other Income	175	625	(450)
Total Revenues	33,795	37,562	(3,767)
EXPENSES:			
Management Fee - ECIDA*	\$ 27,917	\$ 27,917	\$ 0
Rent & Facilities Expenses	1,500	1,500	0
Professional Services	2,262	4,167	(1,905)
General Office Expenses	-	-	-
Other Expenses	546	271	275
Total Expenses	32,225	33,854	(1,630)
NET INCOME/(LOSS):	\$ 1,571	\$ 3,708	\$ (2,137)

* Represents an allocation of salary and benefit costs from the ECIDA based on time charged to RDC. The amount booked reflects 2017 budgeted figures.

REGIONAL DEVELOPMENT CORPORATION ("RDC")
Income Statement
Year to Date: October 31, 2017

	Actual vs. Budget			Actual vs. Prior Year		
	Actual	Budget	Variance	Actual	Prior Year	Variance
REVENUES:						
Interest Income - Loans	\$ 349,237	\$ 350,000	\$ (763)	\$ 349,237	\$ 339,167	\$ 10,070
Interest Income - Cash & Inv.	5,831	6,869	(1,038)	5,831	1,700	4,131
Administrative Fees	8,688	12,500	(3,813)	8,688	16,313	(7,626)
Other Income	28,417	6,250	22,167	28,417	13,462	14,955
Total Revenues	392,172	375,619	16,553	392,172	370,642	21,530
EXPENSES:						
Management Fee - ECIDA*	\$ 249,168	\$ 279,167	\$ (29,999)	\$ 249,168	\$ 270,833	\$ (21,666)
Provision for Loan Losses	51,090	150,000	(98,910)	51,090	114,685	(63,595)
Rent & Facilities Expenses	15,001	15,000	1	15,001	14,167	834
Professional Services	31,085	57,067	(25,982)	31,085	33,090	(2,005)
General Office Expenses	2,242	-	2,242	2,242	-	2,242
Other Expenses	16,655	2,708	13,947	16,655	1,477	15,178
Total Expenses	365,240	503,942	(138,701)	365,240	434,252	(69,012)
NET INCOME/(LOSS):	\$ 26,931	\$ (128,323)	\$ 155,254	\$ 26,931	\$ (63,610)	\$ 90,541

* Represents an allocation of salary and benefit costs from the ECIDA based on time charged to RDC. The amount booked reflects 2017 budgeted figures.



Loan Status Report October 25, 2017 – November 30, 2017

<u>RDC Loans Approved Since Last Meeting</u>	<u>Municipality</u>	<u>Amount</u>
773 North, LLC (Restaurant)	Grand Island	\$ 50,000

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

<u>Loans in Closing Process</u>	<u>Municipality</u>	<u>Amount</u>
(None)		

<u>Loans in the Pipeline</u>	<u>Municipality</u>	<u>Amount</u>
467 Richmond Avenue, LLC (REVPAC) (Retail)	Buffalo	\$1,000,000
Buffalo Forklift (Repair/Wholesale)	Clarence	\$1,500,000
Harker Bio (Bio-Medical)	Buffalo	\$ 500,000
Renew Bath & Body (Retail)	Buffalo	\$ 50,000
Rus Pierogi (Food Manufacturer)	Buffalo	<u>\$ 400,000</u>
		<u>\$3,450,000</u>

2017 <u>Delinquency</u>	<u>Loan Balance Outstanding</u>	<u>Delinquency Rate</u>
0 Accounts	\$0	<u>0</u>

<u>Loans Closed YTD</u>	<u>Loan Total YTD</u>	<u>Total New Jobs Projected</u>	<u>Retained Jobs</u>	<u>Private Investment</u>
6	\$1,767,500	37	501	\$8,318,000

RDC Loan Closings 2017

Project Name	Loan Amount	Jobs at App	Projected Year 3 Jobs	Project City	Closing Date	Project Product
HLM Contracting	\$ 30,000	1	1	Buffalo	1/19/2017	Micro Loan
Sherex Fastening	\$ 750,000	43	50	Tonawanda	3/24/2017	RDC Loan
Clearview Social	\$ 300,000	7	10	Buffalo	3/31/2017	RDC Loan
Radio One Buffalo, LLC	\$ 187,500	0	4	Cheektowaga	3/24/2017	RDC Loan
Dobutsu, LLC	\$ 285,000	0	19	Buffalo	9/18/2017	RDC Loan
65 Vandalia, LLC	\$ 215,000	0	4	Buffalo	9/18/2017	RDC Loan

6 Projects Closed
37 Jobs Projected

\$ 1,767,500 51 88

Total:

**Buffalo and Erie County Regional Development
RDC Loan Analysis**

Borrower:	Buffalo Forklift LLC.	Established:	2007	Type:	Limited Liability Corporation
Project Address:	4624 Goodrich Rd.				
City:	Clarence	State:	New York	Zip:	14031
Phone:	716.553.4275	Fax:	n/a	e-mail:	Sales@BuffaloForklift.com
Type of Business:	Refurbishing and Sales	NAICS:	811310/423830	SIC:	7699

LOAN INFORMATION

RDC Loan Amount:	\$1,500,000.00	Purpose:	Equipment Purchase	Maturity:	Term: 126 months (6-month interest only) Amort: 120 months
Rate:	4.0	Initial Date of Contact:	8/2017	Date of Site Visit:	9/27/2017
Jobs Existing:	10 FT	Jobs Created:	21 FT	Jobs Retained:	N/A

The Sources and uses of funds is as follows:

Source of Funds:		
Grow America Fund ("GAF")	\$4,025,000.00	
RDC Term Loan	\$1,500,000.00	
Equity	\$150,000.00	
Total Funding	\$5,675,000.00	
Use of Funds:		
Grow America Fund ("GAF")	\$4,025,000.00	Refinance of existing debt and working capital associated with expansion.
RDC Term Loan	\$1,500,000.00	Purchase of equipment needed to refurbish lift units to outfit the new facility.
Equity	\$150,000.00	
Total Funding	\$5,675,000.00	

COLLATERAL

Business Asset:	First priority lien on purchase money assets, Second priority lien on all business assets (subordinate to GAF)
Real Estate	N/A
Corporate Guarantors:	Corporate guaranty of Freederm LLC.; Dynamic Real Estate of WNY LLC.; Buffalo Forklift Holdings LLC.
Personal Guarantors:	Unlimited personal guaranty of Arcangelo Capozzolo
Life Insurance:	2 nd priority lien on life insurance policy for Arcangelo Capozzolo valued at \$5,525,000 (subordinate to GAF)
Recommended By:	Gerald Manhard and Michael Alexander

Concurrence: RDC External Loan Committee - unanimously approved / Steve Weathers, CEO

Loan Committee:

Approved Yes No
Date: 11/8/2017

Board of Directors Yes No
Date:

I: Background and Project Description

Buffalo Forklift, LLC. "BF" was formed in 2007 by the Arcangelo Capozzolo in Williamsville, New York. At present Buffalo Forklift is 100% owned by Mr. Capozzolo and specializes in the purchase, refurbishment and sale of used forklifts and excavators. In addition to two local refurbishing and paint shops, BF also has several refurbishing operations located at strategic shipping points throughout the United States with units being sold both domestically and worldwide as far away as South America, Asia and Africa. National repairs and inventory storage are currently set up across the country in seven states including Illinois, Florida, South Carolina, Texas, Wisconsin, Indiana and New York.

It should be noted that BF currently employs a staff of 25 with 15 employees at the sales office and 10 additional staff located locally across the refurbishment and painting facilities. Employees are eligible for a full benefit package including health insurance, paid leave, commission on sales and mobile phone service (where applicable to the job duties). Mr. Capozzolo intends to hire an estimated 21 individuals to replace and expand on the services currently facilitated across the eight national shops. Mr. Capozzolo advised that his local office team has been cross trained in many aspects of the business and would be able to continue operations in the owner's absence should the need arise.

Industry Trends:

According to Tiger Valuation Services, the machinery and equipment wholesaling industry distributes a wide variety of products – including lift trucks, hoists, pumps, and diesel engines – to operators in various industries. As a result, industry trends are largely dependent on the levels of manufacturing and industrial production in the U.S. During the five years prior to 2017, industrial activity – particularly in the oil and gas sectors – was volatile. While private investment in machinery and equipment increased, commodity prices of downstream industry products declined, impacting downstream revenues, which in turn led to a decrease in demand for industry products. As a result, revenue declined slightly at an annualized rate of 0.4% to \$235.4 billion in 2017. Analysts predict that the demand for industrial machinery and equipment will grow over the coming five years, particularly as the oil and gas industry recovers and U.S. manufacturing continues to grow. Companies will then likely have more money to spend on machinery and equipment, which is expected to cause industry revenue to rise at an annualized rate of 3.6% to \$280.9 billion by 2022.

II: Project Description

In an effort to further reduce operational expenses and increase profit margins, Mr. Capozzolo is preparing to refinance his existing high interest rate line of credit with The Credit Junction (\$7MM LOC with approximate balance of \$3.9MM at 16% interest, 2% transaction fee for each draw) and consolidating his refurbishing/sales operations to a new local facility. The new 12k sq. foot facility located on Creekside Drive in Amherst, NY is within close proximity to the I-990, I-290 NYS Thruways and US/Canadian border which will provide additional efficiencies when receiving, servicing and transporting units. It should be noted that there is ample space on the lot for expansion should the need arise as business continues to grow. Services currently outsourced and to be brought “in house” at the central location include: procurement, diagnostics, electrical/mechanical repairs, sand blasting/painting, shipping etc.

As Mr. Capozzolo has been denied financing from Evans Bank (and several others), he has approached the Grow America Fund and the RDC for financing needed to complete the project. Grow America has committed to funding \$4,025,000.00 needed to refinance the existing debts and has asked that the RDC provide the \$1,500,000 for equipment purchases needed to outfit the new facility and continue operations. Specifically, pending approval, RDC Funds would be used for 2 paint booths, 1 sand blasting booth and 2 sand blasting machines, a 200-ton tire press, battery regenerator, battery reconditioning systems, 9 battery chargers of various voltage, 6000lb boom crane, bridge crane kit, 5 forklift lifts, a tilt a lift unit, and 2 new tractor trailers for inventory pickup and delivery.

Cost Savings Summary:

Refinance:

- The current LOC balance is approximately \$3.9MM at a rate of 16%. Securing a lower rate on the high balance will save over \$450k annually in interest charges alone (16% versus 4.0% on outstanding LOC balance).

New Equipment Purchase:

Will allow for additional reductions in operating expenses. Examples include:

- Being able to cut/crimp hoses currently pays \$3.50 per foot on hoses. The addition of the new equipment will allow BF to order in bulk and process the hoses at an overall cost of approximately \$1 per foot.

- Refurbish Industrial Lift Batteries: Currently, each refurbished unit is equipped with new batteries that have an average cost of \$5k-\$6k. New equipment will allow BF to recondition the existing batteries by flushing/replacing the acid and reconditioning other components parts. In house reconditioning is estimated to cost approximately \$1k (a savings of \$4k- \$5k over current process).
- Dedicated Sandblasting Room with Abrasive Separator and Recovery System: Currently, the process is performed in a makeshift booth. A dedicated room would allow for more efficient processing and improved collection/recycling of the waste sand that is currently collected by hand and with the majority being disposed of as opposed to reused. The ability to collect and reuse the propellant will save in material costs and down time previously used to manually collect the uncontaminated sand.
- Tractor Trailer Delivery Truck(s): At present procurement and deliveries are performed by third party vendors. The addition of the shipping truck will reduce overall cost of shipping and allow for other efficiencies such as picking up newly acquired units needing refurbishment from various points while delivering.

Consolidation

- The relocation of all national operations to Erie County will reduce overall operational expenses by eliminating 3rd party refurbishing which requires interstate shipping
- Consolidation of the Local Operations:
 - Currently the refurbishment, finishing and storage are completed at several separate sites which requires third party transporters. Consolidation will eliminate the need and cost associated with transporting units during the different stages of reconditioning the lifts. Also, being able to correct any last-minute repairs on site will improve processing efficiency. An example provided by applicant includes a lift that was transported from refurb to paint. During the painting process, one of the hoses became damaged and needed to be replaced. This required the painters to ship the unit back to the original site for repair. Upon completion of the repair, it then needed to be shipped back to the paint shop for touch ups and then to storage. Consolidation would eliminate the significant cost associated with third party transporting this unit as all aspects of refurb would be processed at a single central location.
 - Reduction in overall expenses associated with maintaining 3 commercial properties. Plans on leasing a 12k sq. ft. facility with 30-foot ceilings to accommodate an overhead crane, all necessary refurbishing operations and storage of inventory (units and parts). It should be noted that the borrower has discussed the possibility of expanding on the property should the need arise in the future.
 - Consolidation of three local repair shops (paint and mechanical) down to one location will save an estimated \$40k per year minimally in 2018. An additional savings of \$43k will be realized once the Goodrich Rd. office is sold. No jobs will be lost as a result of the consolidation.

III. Company Management

Arcangelo Capozzolo- (Owner/Operator/CEO)

Professional Experience

Owner/Operator of Buffalo Forklift LLC. (2007-Present)

Duties include oversight of daily operations, strategic planning and exploring growth opportunities.

Owner/Operator of Mac Transportation (2010-Present)

Duties include oversight of daily operations, bookkeeping, equipment purchases and marketing.

*Although Arcangelo Capozzolo is the sole owner/member of the business, Mr. Capozzolo has built a strong team that can successfully manage the day to day operations of the business without him, should the need arise.

IV: Job Creation

The company expects to create twenty-one (21) full time positions which will fall short of the RDC's general job requirement of one job per \$50,000 lent ($\$1,500,000 \div \$50,000/\text{job} = 30$ jobs). However, the RDC loan will assist with the retention and stabilization of the company's existing 14 full-time employees. Despite the shortfall in job creation, this project will be shifting quality jobs with benefits jobs currently outside NYS to Erie County with an opportunity for further expansion in the near future.

V. Rationale for Loan Approval:

- Acceptable credit history of principal guarantor;
- Good Net worth of principal guarantor;
- Borrower has several years industry experience and has successfully managed the business transition from wholesale business model to retail sales/end user model;
- Business has been profitable over the past several years and has improved margins significantly despite the decrease in overall sales;
- Acceptable cash flow to service proposed debts;
- Acceptable collateral coverage to support debts;
- Key Man Life Insurance policy has been retained in the amount of proposed loans;
- Business is centralizing operations within Erie County and adding to workforce;
- Industry Research (Tiger Valuation Services) indicates the industry is expected to continue to trend positively;
- Owner is committed to company as can be seen by the \$800k in subordinated owner debt.
- Buffalo Forklift has had two previous loans with the RDC that have been paid in full and as agreed.

VI:

Sub Fund Criteria

- Woman Owned Yes or No
- Minority Yes or No
- Target Industry Yes or No
- Target Area Yes or No
- Job Retention Yes or No

VII:

Recommendation:

A summary of the recommended loan terms follows:

- Loan Amount:** \$1,500,000.00
- Interest Rate:** 4%
- Loan Amortization:** 120 months
- Loan Term:** 126 months
- Security/Collateral:** Unlimited personal guarantee of Arcangelo Capozzolo
1st priority lien on all purchase money assets
2nd priority lien on all business assets (subordinate to Grow America)
2nd priority lien on Life Insurance Policy of Arcangelo Capozzoli with cash value of \$5,525,000 (subordinate to GAF)
Corporate guaranty of Buffalo Forklift Holdings LLC., Freederm LLC. and Dynamic Real Estate of WNY LLC.

Loan Disbursement Procedure:

Grid Note with 6-month interest only draw period that will begin to amortize in month 7 with principal and interest payments.

**Buffalo and Erie County Regional Development
RDC Loan Analysis**

Borrowers:	Harker Bio LLC.; Harker Holding LLC.	Established:	7/2014	Type:	Limited Liability Corporation
Project Address:	700 Ellicott St.				
City:	Buffalo	State:	New York	Zip:	14203
Phone:	716.898.8688	Fax:	716.898.8660	e-mail:	Artem.Evdokinov@HarkerBio.com
Type of Business:	Bio Technology Research	NAICS:	541714	SIC:	8731

LOAN INFORMATION

RDC Loan Amount:	\$500,000.00	Purpose:	Working Capital	Maturity:	78 Month Amortization (12 mos. Int. only) 90 Month Term
Rate:	4.0	Initial Date of Contact:	7/2017	Date of Site Visit:	8/2017
Jobs Existing:	14 Ft	Jobs Created:	16 Ft. (over 3 yrs)	Jobs Retained:	N/A

The Sources and uses of funds is as follows:

Source of Funds:		
RDC Term Loan	\$500,000.00	
Equity	\$638,750.00	
Total Funding	\$1,138,750.00	
Use of Funds:		
RDC Term Loan	\$500,000.00	Used for working capital expenses associated with the expansion of services.
Equity	\$638,750.00	Purchase of equipment; working capital
Total Funding	\$1,138,750.00	

COLLATERAL

Business Asset:	First Priority Lien on all business assets of Harker Bio LLC.
Real Estate	N/A
Corporate Guarantors:	Guaranty of Harker Holdings LLC.
Personal Guarantors:	N/A
Life Insurance:	N/A
Recommended By:	Gerald Manhard and Michael Alexander

Concurrence: RDC Loan Committee – unanimously approved / Steve Weathers, CEO

Loan Committee:

Approved Yes No
Date: 11/8/2017

Board of Directors Yes No
Date:

I: Background on Company:

- Harker Bio LLC. is a Technology Partner Organization (TPO) servicing the pharmaceutical and biotechnology industry. The company provides consulting, access to cutting-edge instrumentation and technology, and sophisticated laboratory services in the application of structural biology to assist in early drug discovery and design.
- Harker Bio LLC. ("HB") started off as a commercial spinoff of parent company, Hauptman Woodward Institute ("HWI"), a Research Institute specializing in Structural Biology. Note, founder, Herb Hauptman is the only Buffalonian to win a Nobel Prize in Chemistry (1985), specifically X-Ray Crystallography (passing x rays through a crystal to obtain the three-dimensional molecular structure). Partner, Mr. Ed Woodward hails from John Hopkins University and has also performed extensive work in chemistry and biology. To date, HWI has invested over \$1.5MM into HB. In return for their investment, HB remits \$100k annually in rent to HWI as well as royalty of 5% of any sales.
- Upon realizing great success with the crystalized lab, Hauptman Woodward formed its first Contract Research Organization ("CRO") to offer research in structural biology and service the pharmaceutical industry. With the use of sophisticated electron microscopes and other equipment, scientists can study individual molecules and the relationships that form the bonds. Being able to view and manipulate the structural organization of the molecules allows scientists to determine what proteins will attach/fuse with one another, where/how they will connect and how long the bond will last.
- Currently, most of HB's work is focused on performing structural biology tests for many of the top ten pharmaceutical companies including Pfizer, Monsanto, Mercer etc.

Benefits to Pharma Companies for Outsourcing Research:

- Pharmaceutical companies have recently begun to outsource research to third party Contract Research Organizations such as Harker Bio as it is significantly cheaper and more efficient than conducting the research themselves. Outsourcing avoids an idle staff on payroll while performing the initial research. Services also eliminate the need for individual pharma companies to invest in expensive equipment to perform trials. Providing access to smaller pharmaceutical companies will make them more competitive in hopes of then driving down costs for not only the company but the end users.

II: Project Description:

In an effort to meet the increasing demand of research assistance in the pharmacology industry, HB is preparing to expand on its CRO services currently offered and increase staffing to accommodate the emerging sector.

The company has aligned with the University of Buffalo's downtown Medical Campus and explored the impact of acquiring BioDesy Equipment which will provide the necessary technology capabilities to perform the specific laboratory tests needed by "big pharma" for new drug discovery.

The impact study resulted in the University of Buffalo purchasing over \$800k (allocated from the Buffalo Billion Grant) in equipment that is in-turn leased to Harker Bio LLC to further their studies in supporting the Buffalo Medical Campus. Specifically, the BioDesy Machine support the molecular study of proteins at the exact moment of bonding as well as SBR (Subsurface BioGeoChemical Research). This machine will allow more efficient processing of protein relationships including the bonding and breakdown of those molecules. Additionally, the equipment will allow the company to become a structured determination lab which is extremely useful in the pharma industry due to the composition of the human body.

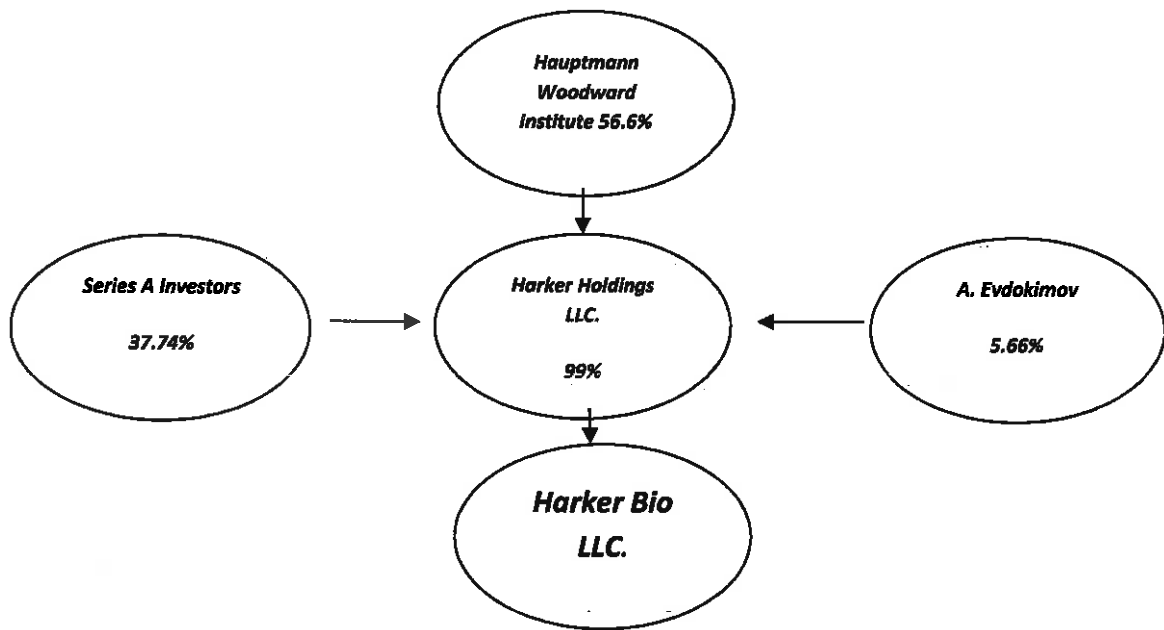
HB states there are only eight BioDesy machines in the world, of which, all are owned by private pharmaceutical companies. Harker will be the only way to access this equipment without purchasing the technology outright.

HB has approached Bank of America for financing needed to support operations and float receivables for services rendered. Unfortunately, the request was declined due to the business incurring historical net losses and being classified as a start-up. As a result of the decline, HB has applied for \$500k in funding from the RDC. RDC

Funds would be dedicated to working capital needs associated including: talent acquisition to service existing/back logged contracts and to fund operational expenses until receivables are remitted. It should be noted that the company has contracted with several “big pharma” companies to perform research critical to new drug discovery. Per Executive Chairman James Biletkoff, although “big pharma” companies always pay, the average receivable takes approximately 45-90 days to receive which appears to be the standard within the bio-medical industry. The proposed working capital loan will allow HB to continue to staff accordingly and work on new projects while awaiting payment on services rendered 45-90 days ago.

“...This is not a startup tech company to produce apps or widgets, this is an opportunity for PH. D’s to perform “real science” that could potentially impact the world. Harker is attracting industry leading talent from all over the world to relocate and establish themselves in Buffalo...” ~James Biletkoff (Executive Chairman of Harker Bio LLC.)

Ownership Structure:



Phases of Harker Expansion

- Crystallized X Ray formation trials which shoot x-rays through a crystal prism which displays the composition of the crystal which is very useful in the intelligent drug design (*completed*).
- Contract Research Organization formation to complete research for Pharma and study the molecular makeup/bonds which will be used to perfect research and drug design (*in process*).
- New Drug Discovery (most profitable): building off knowledge achieved from CRO phase to create new drugs for end users. These drugs can then be licensed to big pharma for a profit. Ultimately, using cash flow from CRO to fund Drug Discovery by 2019/2020 which will be the “Big Payoff” for Harker Bio. It should be noted that this is a commitment made to both capital investors and employees.

III: Key Company Management:

Mr. James Biltekoff

Executive Chairman of Harker Bio LLC. (2015-Present)

Assists the organization with talent acquisition, finances and daily operations.

Director of Community Foundation of Greater Buffalo (2012-Present)

Vice Chair of Buffalo-Niagara Medical Campus (2011-Present)

Board Chairman of Hauptman Woodward (2008-2009)

Education:

MBA from Harvard Business School (1972)

B.A. in English Literature from Yale University (1969)

Mr. Artim Evdokimov

Chief Executive Officer at Harker Bio LLC. (2015-Present)

Manages day to day activities of the laboratory testing facility

Director of Structural Biology and Protein Design at Monsanto (2009-2015)

Principal Research Scientist at Pfizer Pharmaceuticals/ Global R&D (2006-2009)

Team Lead of Protein Crystallography at Proctor and Gamble Pharma (2001-2006)

Education:

PhD. In Chemistry/Structural Biology from Weizmann Institute of Science (1996-2000)

Honorable Mentions:

Featured in seven industry publications

Holds 6 patents

Dr. Delphine Collin

Scientific Advisory Board Member at Harker Bio LLC. (2017- Present)

Founder/President of Delphine Collin LLC. (2012-Present)

Post-Doctoral Fellow at UC Berkley (2000-Present)

Senior Principal Scientist at Boehringer Ingelheim (2009-2017)

Bio-Physics Team Lead at Merck (Pharmaceutical)

Education:

PhD in Biophysical Chemistry from Paris-Sud University (1999)

Doctorate in Pharmaceutical Sciences from Paris-Sud University (1995)

IV: Guarantors:

As no individual has 20% or greater interest in the subject company, there are no applicable personal guarantees associated with this loan request.

Corporate Guarantor:

Harker Holdings LLC.

- Harker Holdings LLC. ownership is comprised of Hauptman Woodward Institute Corp. (56.6%), Series A investors (37.7%) and a key employee (5.7%). Note, Series A investors include prominent medical professionals from the Western New York Medical Community and the University of Buffalo's Medical Campus.
- This compilation of investors, satisfies payroll requirements and other capital needs of Harker Bio LLC. It should be noted that this entity holds employee's convertible shares of Harker Bio LLC. (Equity Appreciation Rights: doesn't show as equity as the company is an LLC. If company ever sells, shareholders get their cut off the top from the proceeds of the sale). The company was structured in this manner to assist with the attraction of national talent as this will increase the overall value of their compensation package.
- It should be noted that the company generates no revenue, but receives cash from Hauptman Woodward Institute as well as other investors on an as needed basis. The only assets detailed on the balance sheet are monies received from investors. As of 12/31/2016, the paid in capital account totals \$910k.

V: Job Creation:

The company will create sixteen (16) full time positions which will meet the RDC's job requirement of one job per \$50,000 lent ($\$500,000 \div \$50,000/\text{job} = 10$ jobs).

Staffing Levels:

	Revenue (\$)	Employees	Avg. salary (\$)
2016 actual	865,000	9	72,000
2017 projected	~1,800,000	14*	83,000
2020 projected	~8,000,000	30	95,000

*Current employment level

VI: Rationale for Loan Approval

- Sales and net profits have trended positively since inception
- Harker Bio has a deep-seated relationship with the Hauptman-Woodard Institute who has significant assets and fund-raising ability to draw from.
- Company operates in targeted and growing bio-technology industry
- Cash flow appears to be sufficient beginning year 2018 (1.45x)
- Company has acceptable commercial credit profile
- Acceptable collateral coverage and RDC has a first lien on all business assets and equipment.
- Guarantor is owned by prominent investors in the community that have access to capital to assist the company when necessary.
- Equipment is highly specialized and cannot be acquired easily by competitors.

VII: Sub Fund Criteria:

Woman Owned Yes or No
Minority Yes or No
Target Industry Yes or No
Target Area Yes or No
Job Retention Yes or No

VIII: Recommendation:

A summary of the recommended loan terms follows:

Loan Amount: \$500,000.00
Interest Rate: 4%
Loan Amortization: 78 months
Loan Term: 90 months (12 months interest only)
Security/Collateral: 1st priority lien on all business assets of Harker Bio LLC.
 Corporate guaranty of Harker Holding Company LLC.

Based on the above case analysis and creation of approximately 16 full-time jobs over the next two years, it is recommended the \$500,000.00 RDC loan be Approved.

Loan Disbursement Procedure:

Grid Note disbursed that will disburse 50% of proceeds at closing with the remaining 50% available upon business need and satisfactory review of internal financials within 3-6 months of disbursement. Loan will begin to amortize 1 month following final disbursement (not to exceed 12 months interest only period)