



**Buffalo and Erie County Regional Development Corporation  
Board of Directors Meeting  
January 25, 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 December 21, 2016 Meeting of the Board of Directors **(Pages 2-3)**
- 3.0 Reports / Action Items / Information Items:
  - 3.1 2016 – Loan Status Report/Loan Closings **(Pages 4-5)**
- 4.0 Approval of the Following Loan Cases:
  - 4.1 Sherex Fastening Solutions, LLC **(Pages 6-9)**
- 5.0 **Next Meeting – February 22, 2017 at 9:00 am.**

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

- DATE AND PLACE:** December 21, 2016, at the Erie County Industrial Development Agency, 95 Perry Street, 5<sup>th</sup> Floor ESD Conference Room, Buffalo, New York 14203
- PRESENT:** Rev. Mark E. Blue, Hon. Byron W. Brown, James F. Doherty, Hon. Joseph H. Emminger, Dottie Gallagher-Cohen, Richard Lipsitz, Jr., David L. Lowrey, John J. Mudie, Hon. Glenn R. Nellis, Louis Panzica, Hon. Mark C. Poloncarz, and Hon. Edward A. Rath, III
- EXCUSED:** Hon. Diane Benczkowski, Brenda W. McDuffie, Hon. Darius G. Pridgen, Sister Denise Roche, Paul V. Vukelic and Hon. Barry A. Weinstein
- OTHERS PRESENT:** Steve Weathers, Chief Executive Officer; John Cappellino, Executive Vice President, Mollie Profic, Treasurer; Gerald Manhard, Chief Lending Officer; Michael Alexander, Assistant Loan Manager; Dawn Boudreau, Compliance Officer; and Robert G. Murray, Secretary
- GUESTS:** Maria Whyte, Erie County Deputy County Executive; Andrew Federick, Erie County Senior Economic Development Specialist;

There being a quorum present at 12:20 p.m., and in the absence of the presence of the Chair, Mr. Lipsitz called the meeting of the Buffalo and Erie County Regional Development Corporation Board of Directors to order.

**MINUTES**

Upon motion made by Mr. Poloncarz and seconded by Mr. Rath, the minutes of the October 26, 2016 Meeting of the Board of Directors of the RDC were unanimously approved.

**REPORTS/ACTION ITEMS/INFORMATION ITEMS:**

Financial Report. Ms. Profic presented the November 2016 financial report noting the balance sheet shows that the RDC ended the month with total assets of \$18.7 million and net assets of \$18.4 million. The monthly income statement shows net income of \$9,500, before non-recurring items. Non-recurring items in November were both a reduction of and addition to capital in relation to the recent EDA amendment to the loan fund. With those transactions considered, there was a net loss for the month of approximately \$2.4 million. The year-to-date

income statement shows total operating revenue of \$409,000, which is \$14,000 below budget. Interest income is behind budget for the year due to the unexpected payoff of several larger loans during 2016. Operating expenses for the year have been \$463,000, which are \$66,000 below budget. After the non-recurring items previously mentioned, there is a year-to-date net loss of \$2.4 million. There being no discussion, Mr. Lipsitz directed that the report be received and filed.

Board Annual Certification of the RDC Revolving Loan Fund (RLF). Ms. Profic presented this item stating that as a part of the RDC's annual report to the U.S. Department of Commerce, Economic Development Administration (EDA), and in connection with the operation of the RDC Revolving Loan Fund, the RDC must certify that the RLF is being operated in accordance with the policies and procedures contained in the RLF plan and the loan portfolio meets the standards contained herein. Ms. Profic stated that on a bi-annual basis, the RDC has retained a specialist to undertake a review of the portfolio to assess RLF operations and to be the basis upon which the RDC can make its required certification. Ms. Profic briefly reviewed the summary of the RLF and reviewed the proposed resolution.

Upon motion made by Mr. Doherty and seconded by Mr. Lowrey, the following resolution was unanimously approved:

RESOLUTION OF THE BUFFALO AND ERIE COUNTY REGIONAL DEVELOPMENT CORPORATION (THE "RLF LOAN BOARD" OR "RDC") IN CONNECTION WITH AN ANNUAL CERTIFICATION TO BE MADE UNDER THE STANDARD TERMS AND CONDITIONS AND ADMINISTRATIVE MANUAL REQUIREMENTS OF THE ECONOMIC DEVELOPMENT ADMINISTRATION (THE "EDA")

2016 Loan State Report/Closing Schedule. Mr. Manhard reviewed the 2016 closing schedule. Mr. Lipsitz directed that the report be received and filed.

At this point in time, Mr. Poloncarz thanked Mr. Mesiah for his excellent service as a Board member of the Erie County Industrial Development Agency and the Buffalo and Erie County Regional Development Corporation. In addition, in recognition of Mr. Mesiah's resignation as President of the Buffalo Branch of the National Association for the Advancement of Colored People, Mr. Poloncarz thanked Mr. Mesiah for his service on behalf of the community and noted the community is better off because of his efforts.

There being no further business to discuss, the meeting was adjourned at 12:25 p.m.

Dated: December 21, 2016

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Robert G. Murray, Secretary



**Loan Status Report  
December 21, 2016 – January 25, 2017**

<u>RDC Loans Approved Since Last Meeting</u>	<u>Municipality</u>	<u>Amount</u>
Clearview Social (Tech start-up)	Buffalo	\$ 300,000
HLM Landscaping (Landscaping/snow removal)	Buffalo	\$ 50,000
Port O'Cell Brewing (Brewery)	Buffalo	\$ 215,000
		<u>\$ 565,000</u>

<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>
Mr. Albert Dawson d.b.a. Daw, Inc. (Auto Repair Store)	Grand Island	\$ 50,000

<u>Loans in the Pipeline</u>	<u>Municipality</u>	<u>Amount</u>
Jovino Property (Financial services)	Buffalo	\$ 50,000
Sherex Fastening (Manufacturer)	Tonawanda	\$ 750,000
		<u>\$ 800,000</u>

2016 <u>Delinquency</u>	<u>Loan Balance Outstanding</u>	<u>Delinquency Rate</u>
2 Accounts	\$4,664	0.10%

<u>Loans Closed YTD</u>	<u>Loan Total YTD</u>	<u>Total New Jobs Projected</u>	<u>Retained Jobs</u>	<u>Private Investment</u>
11	\$3,962,000	64	359	\$13,018,500

**RDC Loan Closings 2016**

Project Name	Loan Amount	Jobs at App	Projected Year 3 Jobs	Project City	Closing Date	Project Product
Robinson Home Products	\$ 1,600,000	110	113	Williamsville	4/1/2016	RDC Loan
Big Ditch Brrewing Co.	\$ 500,000	65	75	Buffalo	7/1/2016	RDC Loan
S.J. McCullagh	\$ 500,000	38	38	Buffalo	9/30/2016	RDC Loan
Genreal Welding and Fabricating	\$ 500,000	68	78	Elma	6/23/2016	RDC Loan
492 Elmwood/The Thin Man Brewery	\$ 337,500	0	10	Buffalo	4/15/2016	RDC Loan
Disc Lock, LLC	\$ 325,000	45	52	Tonawanda	5/12/2016	RDC Loan
51 Chippewa Street	\$ 50,000	0	20	Buffalo	3/25/2016	Micro Loan
Elite Dance Studio	\$ 50,000	2	3	Bowmansville	4/14/2016	Micro Loan
Azariah's Innocence, LLC	\$ 40,000	3	4	Buffalo	9/1/2016	Micro Loan
Cedars Bakery and Deli	\$ 35,000	2	4	Buffalo	12/1/2016	Micro Loan
Alpine Made, LLC./Beiter and Sons Farm, LLC	\$ 24,500	2	3	South Whales	8/5/2016	Micro Loan

11 Projects Closed  
64 Jobs Projected

**Total:                                   \$ 3,962,000                                   335                                   400**

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

**Borrowers:** Disc-Lock, LLC. /Sherex Fastening Solutions/A. Pratt Holdings LLC. / 850 Moe Drive, LLC.

<b>Project Address:</b>	400 Riverwalk Parkway, Suite 600				
<b>City:</b>	Tonawanda	<b>State:</b>	New York	<b>Zip:</b>	14150
New Ownership: Sherex- Adam Pratt (President, 70%), A. Pratt Holdings (30%), Disc Lock, LLC.- Adam Pratt (45%), A. Pratt Holdings (45%), Gregory White (10%), 850 Moe Drive, LLC. Adam Pratt (50%), James Pickren (50%)					
<b>Phone:</b>	Sherex- 716.875.0315 Disc-Lock- 310.944.9352	<b>Fax:</b>	n/a	<b>e-mail:</b>	apratt@sherex.com
<b>Type of Business:</b>	Manufacturer	<b>NAICS:</b>	Sherex- 423840 Disc-Lock- 332722	<b>SIC:</b>	5084

**LOAN INFORMATION**

<b>RDC Loan Amount:</b>	\$750,000.00	<b>Purpose:</b>	Acquisition and Working Capital Needs	<b>Maturity:</b>	Term: 84 months Amortization: 84 months
<b>Total RDC Exposure:</b>	\$1,087,103				
<b>Rate:</b>	4.0%	<b>Initial Date of Contact:</b>	12/6/2016	<b>Date of Site Visit:</b>	12/8/2016
<b>Jobs Existing:</b>	43FT; 2PT	<b>Jobs Created:</b>	50FT; 2PT	<b>Jobs Retained:</b>	43 FT; 2 PT

**The Sources and uses of funds is as follows:**

<b>Source of Funds:</b>		
Cephas Financial	\$1,750,000.00	Subordinated to RDC
Five Star Bank	\$1,000,000.00	
RDC Term Loan	\$750,000.00	
Pickren Note	\$4,000,000.00	Subordinated to RDC
<b>Total Funding</b>	<b>\$7,500,000.00</b>	
<b>Use of Funds:</b>		
Cephas Financial	\$1,750,000.00	Buyout of Mr. James Pickren's interest in Sherex Fastening Solutions Inc., Disc Lock LLC. and all related entities
Five Star Bank	\$1,000,000.00	Buyout of Mr. James Pickren's interest in Sherex Fastening Solutions Inc., Disc Lock LLC. and all related entities
RDC Term Loan	\$750,000.00	Buyout of Mr. James Pickren's interest in Sherex Fastening Solutions Inc., Disc Lock LLC. and all related entities
Pickren Note	\$4,000,000.00	Buyout of Mr. James Pickren's interest in Sherex Fastening Solutions Inc., Disc Lock LLC. and all related entities
<b>Total Funding</b>	<b>\$7,500,000.00</b>	

**COLLATERAL**

<b>Business Assets:</b>	Second lien on all business assets (subordinate to Five Star Bank)
<b>Real Estate</b>	Second lien on personal residence of Adam Pratt located at 68 Norwood Ave. Buffalo, NY 14222
<b>Corporate Guarantors:</b>	N/A
<b>Personal Guarantors:</b>	Unlimited personal guaranty of Mr. Adam Pratt
<b>Life Insurance:</b>	Second priority lien on Mass Mutual Life Insurance Policy of Mr. Adam Pratt valued at \$1.5MM (subordinate to Five Star Bank) Second priority lien on Life Insurance Policy valued at \$750k (subordinate to Cephus Capital)
<b>Recommended By:</b>	Gerald Manhard and Michael Alexander

**Concurrence:**

<b>Loan Committee:</b>	Approved Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<b>Board of Directors</b>	Yes <input type="checkbox"/> No <input type="checkbox"/>
<b>Date:</b>	1/11/2017	<b>Date:</b>	

## Sherex Fastening Solutions, LLC / Disc-Lock LLC / A. Pratt Holdings, LLC / 850 Moe Drive LLC

### Background:

#### Sherex Fastening Solutions

Founded in 2004, Sherex Fastening Solutions LLC. is a designer/distributor of blind rivet nuts, rivet nut installation tools and brass insert. The company currently occupies a 20,650-square foot Global headquarters located at Riverwalk Solar Energy Business Park in Tonawanda, NY which also serves as warehouse/distribution hub. Ownership of the company is split between President Adam Pratt (70%) and CEO James Pickren (30%). Examples of parts produced include Clinch Nuts, Rivet Nut Installations tools and Brass Inserts. In 2009, SFS began to expand its footprint beyond the United States and Canada into the Mexican marketplace with its first major customer being a manufacturer of Coca- Cola vending machines.

Sherex's core competencies that provide a competitive advantage over market competitors include synergies gained from the recent acquisition of Disc Lock, diversified client portfolio and greater efficiencies realized from the consolidation of 3 facilities which has reduced overall fixed costs. The company recently established a production facility located in Akron, OH that has become the primary supplier to the industry of MS/NAS Ram Nut product line rivet nuts. In 2015, the Akron production facility was awarded ISO9001:2008 and AS9100 quality management systems certification which has allowed them to expand service offerings including higher grade metals to end users.

#### Disc Lock LLC:

DLI is a manufacturer and designer of patented, highly specialized, vibration proof fastening systems used in numerous applications in a variety of industries worldwide. The company was established in 1982 in California and was recently purchased by Sherex Fastening Solutions in February, 2016. The company is 90% owned by both Adam Pratt and James Pickren (45% each) and 10% by Greg White. Competitors of DLI include chemical adhesive companies, washer manufacturers and nylon inserted nut producers.

Disc Lock LLC. maintains a base of 500 total customers with an 80% rate of repeat business. DLI also has several key customers that rely on the company's unique products to fit specific requirements. These represent long term relationships spanning 10 to 20 years. 70% of sales are within the U.S., 20% in Europe, the remainder of sales are within Australia, Asia and South America. The majority of their sales are through distributors (70%) common to Sherex, 20% directly to the military wheel manufacturers and the remainder directly to the end-user. The company's customers include leading manufacturers of buses, military vehicles, railcar manufacturers, and wind energy equipment makers. Management sees the most growth and profit potential in the development of products designed for specific purposes. For example, the company recently applied for patents for specialized fasteners geared towards the renewable energy space (solar and wind). By providing products that are application-specific, the company could achieve additional high-margin growth.

#### A.Pratt Holdings LLC

Formed in 2016 for the sole purpose of acquiring Pickren's shares of Disc Lock LLC. and Sherex Fastening Solutions. Upon completion of the transaction the A. Pratt Holdings will own 90% of Disc Lock LLC. and 30% of Sherex Fastening Solutions. It should be noted that A. Pratt Holdings, LLC is 100% owned by Mr. Adam Pratt.

### 850 Moe Drive

Formed for the sole purpose of being the real estate holding company for the Akron production facility. Ownership of 850 Moe Drive is and will be split equally between Adam Pratt and James Pickren. Mr. Pickren's interest in 850 Moe Drive will remain unchanged upon the completion of the transaction.

### Project Description:

Mr. Adam Pratt has been evaluating the buy-out of James Pickren's 45% ownership in Disc-Lock and 45% interest in Sherex Fastening Solutions since January 2016. The pair executed a letter of intent to sell on 11/22/2016 which details the transfer of all of James outstanding sales units of Sherex and Disc-Lock to Adam Pratt for a sum of \$7.5MM. Upon the completion of the transaction, both Five Star Bank and the RDC will release Mr. Pickren as a personal guarantor on all credit facilities (Sherex Fastening Solution LLC. and Disc-Lock, LLC.)

Five Star Bank has approached the RDC to assist with the proposed buyout of Mr. Pickren's interest in subject companies. Without the RDC's participation, the transaction could not be completed resulting in the possible downsizing of workforce and/or the company leaving Erie County resulting in net job losses to our local economy. As a condition of the proposed buyout, Mr. Pickren is requiring that his personal guaranty be released from all debts associated with RDC's loans to Sherex Fastening Solutions and Disc Lock LLC. Five Star Bank has also agreed to release Mr. Pickren's guarantees from their loans associated with the subject companies upon completion of the transaction.

### Rationale of Proposed Buyout of James Pickren

As of 2012, ownership of Sherex was split between Pratt and Pickren 70%:30% respectively. As Sherex continued to grow, James was brought in to hold a more active role in the company as Pratt thought Mr. Pickren's extensive business experience would be of great benefit. However, immediately after joining the organization full time, he began micro-managing the staff and threatening their employment status if they didn't comply with his demands. Mr. Pratt and Mr. Pickren met in February 2015 to discuss his behavior and how it was negatively affecting the staff and production. There was minimal to no improvement over the next 45 days of operation which resulted in several employees filing complaints/grievances. One key employee felt the environment was so toxic, he resigned and considered legal action.

On several occasions, James would give their employees different instructions and threaten their job security if they didn't do as instructed. In the fall of 2015, Mr. Pickren met with James once again and informed him that he could no longer participate in the ongoing operations of the business. James has been minimally engaged in the company through 2016 which has resulted in significant improvement to the culture of the business and has led to growth in overall sales.

In addition to the negative impact Mr. Pickren has had on the staff and production, he commands a high salary, benefits and travel compensation as an owner without contributing to revenue growth. These requirements have hampered Sherex's ability to invest more capital into the company to support additional revenue producing staff to support the realized and anticipated growth. The cost savings of buying out James' interest in the company and removing him will allow for the addition of 3-4 sales related employees.

*It should be noted that James resides in Richmond, Virginia and has expressed a desire to relocate the company's core operations to a friendlier business climate outside of the Western New York area resulting in net lost jobs to our local economy.*



### Job Creation

The buyout of James Pickren is projected to create 4 or 5 jobs over the next 3 years as the company continues to grow and is below the desired job creation ratio per \$50,000 lent. However, the real significance to this transaction is the buyout ensures the preservation of forty-three (43) jobs and eliminates the possibility of Sherex's operation leaving Erie County. It has been Mr. Pickren's desire to relocate the current facility out of NYS to a more business friendly climate.

### Recommendation:

- Sherex has demonstrated strong revenue and profitability trends since the inception of the relationship in 2010. Historical operations have shown the ability to quickly improve both leverage and equity through debt repayment and earnings retention.
- The company has historically handled all RDC debt as well as all other debt obligations as agreed
- Sherex has demonstrated the ability to meet and/or exceed projections
- Proposed transaction will add significant leverage to the company. However, when Sherex bought out a former retiring member in 2012, the balance sheet was highly leveraged at 24:1 and quickly dropped to 2.5:1 in 2015.
- Merits of the new debt structure lie in the strong excess cash flow generation which is being carefully monitored by loan covenants established by both Five Star Bank and Cephas Capital
- Buyout of Pickren will result in the release of a strong guarantor but will eliminate much of the friction he has created with the employees of the company and Adam Pratt. He has not been active in the management of the company for some time, but has enjoyed substantial employee benefits, including a salary of over \$600,000 annually. This future savings will be used to retire the proposed debt and add additional revenue generating staff.
- The Pickren buyout will eliminate the threat of jobs leaving Erie County and NYS.
- Sherex and Disc Lock are in the relatively early stages of common ownership and synergies are not yet fully realized. The two companies offer complimentary products and will open new distribution channels, providing excellent opportunities for growth.

Approval of the loan is recommended based on the above loan case analysis. Also being recommended is the release of James Pickren's personal guarantee from all RDC Loan facilities, as this is a condition of the proposed buyout.

A summary of the recommended loan terms follows:

<b>Loan Amount:</b>	\$750,000.00
<b>Interest Rate:</b>	4%
<b>Loan Amortization:</b>	84 months
<b>Loan Term:</b>	84 months
<b>Commitment Fee:</b>	\$3,750.00
<b>Security/Collateral:</b>	Unlimited personal guarantee of Mr. Adam Pratt. Second priority lien on all business assets of Sherex Fastening Solutions Inc. and Disc Lock LLC. Second priority lien on Mass Mutual Life Insurance Policy for Mr. Adam Pratt valued at \$1.5MM (subordinate to Five Star Bank). Second priority lien on Life Insurance Policy for Mr. Adam Pratt valued at \$750k (subordinate to Cephus Capital). Second lien on personal residence of Adam Pratt located at 68 Norwood Ave. Buffalo, NY.

*Note: Cephus debt is subordinate to RDC debts.*