Pennsylvania Minority Business Development Authority
(PMBDA)

Thursday, February 19, 2015
Board Meeting Minutes
Commonwealth Keystone Building
Conference Room 4 East
400 North Street, 4th Floor
Harrisburg, PA 17120
10:00 a.m.

Board Members Present: Scott Dunkelberger, Director of Center for Business Financing (designee for Dennis M. Davin, Acting Secretary of Department of Community and Economic Development) chaired the meeting; Paul Wentzel (designee for Robin L. Wiessmann Acting Secretary of Banking); Lorraine Calien (designee for Senator Vincent Hughes).

Board Members via Phone: Altagracia Mercado (designee for Senator Pat Browne); Gail Landis; Ted Darcus; Warner N. Macklin, III, JD; Takesha Latham (designee for Rep. Michelle Brownlee); Rev/ James Moore, Sr.; and Rudy Gherghel.

Staff Present: Cathy Onyeaka, Executive Director of PMBDA; Lori Irwin, DCED Counsel; Tonya Haldeman, Staff of PMBDA.

A meeting of the Board of Directors of the Pennsylvania Minority Business Development Authority (PMBDA) was held on Thursday, February 19, 2015 in Conference Room 4 East, Commonwealth Keystone Building, 4th Floor, 400 North Street, Harrisburg, Pennsylvania. Scott Dunkelberger called the meeting to order at 10:15 A.M

Topic: Approval of the November 13, 2014 Board meeting minutes.

Action: Upon motion by Robin L. Wiessmann and seconded by Lorraine Calien, the Board unanimously approved the November 13, 2014 Board meeting minutes, as presented.

Topic: Approval of the December 2014 Financial Report.

Action: Upon motion by Robin L. Wiessmann and seconded by Lorraine Calien, the Board unanimously approved the December 2014 Financial Report, as presented.

Cathy Onyeaka presented a special request (information attached) from Blue August, LLC t/a Dickey's Barbecue Pit. Ms. Onyeaka explained that Pheng Moua and Mai Evans have parted ways and discontinued their business relationship due to irreconcilable differences. Ms. Evans is moving forward with the project and requested that the board approve a few modifications in the structure of the company, the project, and the loan. Ms. Onyeaka explained these modifications.

Mr. Dunkelberger asked if there were any questions. Mr. Gherghel questioned if the new owner is capable of running the business with the current restaurant failure rates. He inquired about the PMBDA loan portfolio. Mr. Dunkelberger explained the history of the PMBDA program adding that there are changes being introduced to make the program more marketable. Mr. Gherghel questioned PMBDA's outstanding loans and delinquent rates. Mr. Dunkelberger stated that PMBDA staff will speak to him in private to answer all of his questions. Acting Sec. Wiessmann asked about interest rates and requested a copy of the revisions being made under the program.

Acting Sec. Wiessmann also asked about Mr. Moua signing off on the agreement to avoid suing the business down the road. Mr. Dunkelberger has Ms. Evans explain the history of the company. She explains that Ann Taylor will be her new owner operator. Mr. Gherghel inquired about the names on the registration for the franchise agreement. Howard Lieberman (Ms. Evans business consultant) explained Blue August LLC is the name on the registration, adding that they are in the process of removing Pheng Moua and adding Ann Taylor in the contract. Ms. Calien asked if PMBDA needs copies of the paperwork. Ms. Irwin says yes that it is part of the closing documents. Acting Sec. Wiessmann then asked if the business is in operation at this time. Ms. Evans explained it is still under construction. Upon motion by Acting Sec. Wiessmann and second by Lorraine Calien, the special request was unanimously approved by the Board.

Having no additional information to discuss, the meeting was duly adjourned at 10:32 a.m.

Special Requests – Board Action Required

Blue August, LLC t/a Dickey's Barbecue Pit
PMBDA # -27-202-3241
PMBDA Loan # - Loan has not closed
Loan Amount: $172,816

Company: On November 13, 2014, the PMBDA Board approved a $172,816 loan ("Loan") for Blue August, LLC t/a Dickey's Barbecue Pit (the "Company") to finance leasehold improvements, machinery and equipment, and operating costs associated with the start-up of a fast food barbeque restaurant. The Loan was to be combined with a $50,000 loan from Lehigh and Northampton Counties Revolving Loan Fund, a $60,000 loan from Whitehall Township Community Loan Fund and a $44,953 of owner's equity for a total project cost of $327,769. The project site is identified to be within the Park Plaza Shopping Center at 1800 Sullivan Trail, Easton, Northampton County, PA. At the time of project approval, the Company ownership breakdown was 51% by Mai Evans and 49% by Pheng Moua; the Loan was secured by three real properties owned individually by the two owners.

Request: Pheng Moua and Mai Evans have decided to part ways and discontinue their business relationship due to irreconcilable differences over management philosophy and finances. In spite of the separation, Mai Evans is determined to move forward with the project. She is requesting the board to approve a few modifications in the structure of the Company, the project, the Loan, and the conditions of the Loan. The following are changes Mai Evans desires to implement and requests the board's approval in order for the Company to move forward with the project:

1. Pheng Moua will surrender all of his interest in the Company and will be relieved of any and all personal liabilities created by the project. These liabilities may include, but are not limited to the franchise agreement, the lease agreement, personal guarantees, and any other obligations created by the Company on account of the project. Accordingly, Mr. Moua's real estate will be removed from collateral security for the Loan.

2. Mai Evans will bring on a new partner, Ann Taylor, as the new owner/operator who will own 19.90% interest in the Company and will not be required to personally guarantee the Loan.

3. In order to provide adequate collateral for all project financing, Mai Evans' parents, Son T. and Chin T. Pham, have agreed to pledge their personal residence located at 69 Ream Road, Ephrata, PA as collateral for the Loan. They will have no ownership interest in the Company and their liabilities for the Loan will be limited only to their residence.

4. The cost associated with the restructuring of the company added significant consulting, legal, and franchise fees to the project; therefore, the Company is requesting an additional $10,000 funding from Whitehall Township Community Loan Fund which will bring its loan to $60,000 and increase the total project cost to $327,769.

Analysis: The Company equity at the end of the 2016 fiscal year remains the same at $84,000; however, due to the exclusion of one partner's equity in the project, personal equity contribution decreased from $282,400 to $105,000, which results to a reduction in total equity support of the project from $366,400 to $189,000 and in a revised ratio of equity to total project cost of 0.6 to1.

A cash flow analysis based on projected net income for year ending December 31, 2016 (second year of business) remains the same as well. The Company will generate sufficient cash to fund the projected debt service. By the end of 2016 fiscal year, the Company projects $2.20 in available funds to cover every $1.00 of Company debt.

The loan to value ratio is satisfactory at 89%.

Recommendation:

The Loan amount remains the same at $172,816 at 4% interest over seven (7) years. However, due to slight increase in total project cost, the Company is requesting some modification in Loan conditions as follows:

1. Subject to the general obligation of the borrower.

2. Subject to a first lien security interest on all business assets of the Company, wherever located, including but not limited to machinery and equipment to be purchased for this project.

3. Subject to a second mortgage on the real estate located at 16 Van Doren Ave, Somerville, NJ valued at $294,295, subordinate only to a first mortgage of OCWEN Financial in the amount of $275,000.

4. Subject to a second mortgage on the real estate located at 2709 Maple Drive, Hellertown, Northampton County PA valued at $462,000, subordinate to a first mortgage of Trident Mortgage in the amount of $37,000.

5. Subject to a third mortgage on the real estate located at 69 Ream Road, Ephrata, PA valued at $196,070, subordinate to a first mortgage of SpingLeaf Financial in the amount of $27,681, and a shared second mortgage of Whitehall Township Community Loan Fund with Lehigh and Northampton Counties RLF in an aggregate amount of $110,000.

6. Subject to the personal guarantee of Mai Evans.

7. Subject to the guarantees of Son T. and Chi T. Pham; the said guarantees will be limited to the property being pledged as security for the Loan.

8. The borrower shall obtain life insurance policy in the amount of the Loan on the life of Mai Evans and assign the insurance policy to PMBDA.

Staff Recommendation - Approval