

**MINUTES
FIVE COUNTY ECONOMIC DEVELOPMENT DISTRICT
REVOLVING LOAN FUND ADMINISTRATION BOARD
WEDNESDAY, MAY 4, 2011**

**FIVE COUNTY ASSOCIATION OF GOVERNMENTS
CONFERENCE ROOM
1070 WEST 1600 SOUTH, BUILDING B
ST. GEORGE, UTAH**

ATTENDING:

Nick Lang, Chair	Lang and Company
Jeff Marchant	Entrepreneur/State Bank of So. Utah (board member)
West Martin	Town & Country Bank
Scott Jolley	Cedar Area Chamber of Commerce
Commissioner Jim Matson	Five County AOG Steering Committee
Ken Sizemore	Five County AOG
Darren Janes	Five County AOG

EXCUSED:

Van Mackelprang	Kanab City Attorney
Joe Judd	Western Region Workforce Services
Paul Campbell	Senior Corps of Retired Executives (SCORE)
Terry Keyes (No longer on Board)	Wells Fargo Bank

A. WELCOME AND APPROVAL OF FEBRUARY 15, 2011 MINUTES

Nick Lang, Chair, welcomed those in attendance and noted that a quorum was present to conduct of business. He presented minutes from the February 15, 2011 meeting for Board discussion and consideration.

MOTION WAS MADE BY JEFF MARCHANT, SECONDED BY WEST MARTIN, TO APPROVE MINUTES OF THE FEBRUARY 15, 2011 MEETING AS PRESENTED. MOTION CARRIED UNANIMOUSLY.

Mr. Sizemore explained that Joe Judd's term on the RLF Board expires next month and a new representative will be selected at that time. He has enjoyed serving on the Board, but because of an hip injury his wife has sustained he will no longer be able to serve in that capacity. Nick Lang mentioned that it would be nice to provide some type of gift as an expression of appreciation for the many years he has served on the Board. Since the last meeting, a new

member has been added as a representative of the Chambers of Commerce. This is a result of restructuring of the Board from seven to nine members. He introduced and welcomed Scott Jolley, President and CEO, of the Cedar City Chamber of Commerce. Mr. Sizemore introduced other Board members and provided some background information to familiarize Mr. Jolley with the Board structure. Terry Keyes was appointed a couple of months ago as a banking representative with Wells Fargo Bank. Staff has received notification from Terry that his job assignments are changing and he will no longer be able to serve on the Board. However, he has made a recommendation for another banker at Wells Fargo who could take his place. This appointment will be considered along with the replacement of Joe Judd by the Five County Association of Governments Steering Committee during the June 2011 meeting.

B. APPLICANT PRESENTATIONS

1. **Interlinx Communications, LLC.**: Darren Janes explained that in accordance with the RLF Plan, applications must move forward at least six months after approval. The Interlinx loan was approved in September 2010 contingent on several conditions. Since that time, owners of the business have been in close contact with Darren to provide updates in regard to finalizing the Verizon cell tower contract. This process has taken much longer than originally anticipated. It now appears that the contract is stagnant and the agreement may not be executed. A few weeks ago, a meeting was held with owners to discuss strategies in moving forward with this loan. It was determined that the best thing for the business would be to represent issues with the contract. The owners also wanted the opportunity to discuss their business operations and financial position in more detail to hopefully reach a resolution to this final remaining condition of the loan. He noted that the concern of the Board was in regard to cash flow and the need to have this contract in place in order to service their loan. This was a result of the fact that the company had a negative net worth for over ten months in 2010. Some issues were not discussed in depth during the previous meeting with owners, specifically cash payments made to Kay Traveller. West Martin indicated that one possible way around this issue is to have the loan subordinated by Kay Traveller. Darren explained that the shift in this business has been from construction to the nuts and bolts of what Interlinx provides in terms of access to their fiber optic cables. Between 2009 and 2010, their sales revenue has increased by 27 percent. This shift captures income through people signing up for their service. Today there are opportunities to move this loan from a holding pattern. Updated financial information will be presented today which will hopefully clear up previous questions. Darren indicated that Five County RLF loan documents were signed but the loan was not funded at that time. This precipitated closing and funding of the loan with State Bank back in September.

Matt Hamblin provided updated profit and loss statements for the period January 2011 through March 2011. He also provided financials from January 2010 through December 2010. Over the past year there has not been as much activity in terms of build jobs but rather a move to providing service to subscribers. However, it was explained that Interlinx does make a profit on build jobs. Different sources of income include: 1) Carrier income where customers purchase circuits; 2) Maintenance fee income from more of a private network solution; and 3) Miscellaneous income from build jobs. Cost of goods sold includes the circuits which are purchased from 360 or Qwest. A large portion of income goes back into build jobs from either last year or this year. He reported that the fiber optic line to Cedar City has been completed.

Matt explained that Qwest has one trunk line and Interlinx has two trunk lines coming into Cedar City. Interlinx has three trunk lines in Washington County, two out of Gunlock and one down through Apple Valley to Hurricane and St. George. Interlinx ties into a major transcontinental line that feeds up and down the entire west coast, and is actually

the largest network in the country. The reason for their success is that they do not rely on Qwest connectivity. It is very important that commercial and industrial users have the reliability and connectivity provided by the Interlinx network. The two major transport players in southern Utah are Interlinx and Qwest. South Central is also a major player now because Interlinx has connected their lines whereby the Interlinx structure makes this possible. This redundant network infrastructure is very important for companies looking to relocate to this area. Lowery Snow explained that Interlinx has been operational for eight years and has been profitable from the second year in terms of cash flow. A monthly payment of \$25,000 is paid to Kay Traveller as a return on his investment. The company remains healthy, viable, and is puzzled why the loan is not able to move forward. He reported that the Data Center recently signed a large contract with Mountain America Credit Union to locate a significant part of their data backup here because of the connectivity. SkyWest, All Connect, Utah State Retirement System, Mozy, etc. are all here because of connectivity. Mozy is now talking about establishing a small office with employees here in southern Utah. These type of companies would not remain in the area without this connectivity infrastructure. He explained that this is not a huge loan that the company is requesting. It was also noted that the network is continually expanding and stretching out into different areas. Cedar City is now talking about putting a data center at Port 15 because of the connectivity that is now available.

Jeff Marchant mentioned that the Board got hung up with the Verizon contract in their initial approval of the loan because this seemed to be a great source of revenue. Matt explained that all of the major providers such as AT&T, Sprint, Verizon, etc. are all going to 4G networks. The big push now is to get fiber to the towers. A lot of decisions of the cell carriers have been delayed due to some maneuvering by Qwest, and some of these carriers are examining the Qwest pricing to determine if they can get a better deal. Lowery Snow explained that the Verizon contract is only one part of the overall model. Even though the loan approval was based on this contract, it is not going to determine the ultimate success of Interlinx and this is not the only carrier out there. Since the Board meeting that provided approval of the loan, Interlinx has hooked up two AT&T towers. Contracts are in place with other carriers but not as expansive as the master contract proposed with Verizon that would cover a large share of Washington and Iron counties. There have also been four ISP startups in southern Utah since the network has been in place. These companies do business with Interlinx because it is a lot easier than dealing with Qwest. Current ISPs that have been here for sometime such as Infowest and Skywire have been able to expand their businesses in ways that would have not been possible without Interlinx. Scott Jolley acknowledged that the company is doing very well because of the significant return to the investor and amount of funds in accounts receivable. Matt explained that the none of the accounts receivable are out more than 60 days and all accounts are current with the exception of one that is in bankruptcy.

Commissioner Jim Matson asked how the company sees competition with Qwest shaping up over the next few years. Matt explained that over the past eight years most of their business has come from Qwest through their service providers. All of the other service providers who ride their network bring in business. Up to this point, none of Interlinx customers have gone back to Qwest. Interlinx is very competitive and has been able to operate at a profit. In addition, Interlinx offers services that Qwest does not offer. Board members asked if things would change with the Qwest merger with Century Link. Matt acknowledged that this may have an impact, but there are still certain things that they would not be able to provide because it is too expensive. He explained that three new contracts coming on board over the next few months will increase revenue by \$45,000 each month. Owners may be more comfortable in subordinating those revenues. In the short term, the RLF loan will provide some good revenue generators

through providing fiber optic access to new locations.

Nick Lang asked about job creation which is a primary objective of the RLF program. Matt explained that payroll expenses are tacked on at the end of each quarter. Lowery Snow shared information about a particular health care company that provides mediation between health care insurance and the medical care provider. This company has expanded their operations dramatically as a result of fiber optic access, and has created a large number of jobs because of services provided by Interlinx. All of their business is highly dependent on internet access and connectivity. Another local company, who is connectivity based, is also considering expanding their operations. Owners are asking that this be looked at in a broader sense of facilitating job growth for companies that rely on this infrastructure rather than entirely looking at the job growth internally.

Nick Lang thanked InterLinx representatives for providing additional information and answering the Board's questions. He indicated that the Board would deliberate and Darren would notify owners of the decision.

Commissioner Matson asked if this \$125,000 loan is a tipping point for the company. Darren Janes responded that he feels the company would definitely be able to survive without this loan. Scott Jolley commented that it appears to be a structural thing in terms of the company's ability to get money back from the investor if necessary. Jeff Marchant pointed out that this company definitely creates jobs. West Martin noted that as the company brings in new contracts, it is not necessary to spend a lot of cash to make this happen. Securing this loan allows the company to expand services much quicker as opposed to using their own funds over a longer period of time. He pointed out that a loss in the month of March hurt the company quite severely in terms of cash flow, but the company still had a six month profit. It was agreed that the company supplies very valuable services to the community. In the past, loss of connectivity on a couple of occasions severely hampered the business community. The redundancy provided by this company is extremely important. Scott Jolley mentioned that this connectivity is very important in terms of attracting new businesses to the area. The number of jobs that would be created by these companies is also significant. Nick Lang pointed out that Kay Traveller is willing to subordinate this loan. Scott Jolley indicated that the loan is already guaranteed by the principals which protects the RLF program. West Martin mentioned that there may be some risk involved with this loan, but the benefit to the community far outweighs the risk.

MOTION WAS MADE BY SCOTT JOLLEY TO APPROVE THE INTERLINX LOAN, REMOVE CONDITION #2 FROM THE SEPTEMBER 13, 2010 BOARD APPROVAL, FILE A BLANKET UCC-1 LIEN AND FUND THE LOAN AT \$125,000. ALL OTHER TERMS AND CONDITIONS PREVIOUSLY APPROVED WILL REMAIN IN PLACE. MOTION WAS SECONDED BY COMMISSIONER JIM MATSON. MOTION CARRIED, WITH JEFF MARCHANT ABSTAINING.

2. **Straight Stripe Painting, Inc. (Cheever Holdings, LLC)**: Jeff Marchant clarified that there is already an \$80,000 loan in place and this loan would be rolled into the other loan bringing the loan total to \$160,000. Scott Jolley expressed some concern with the Gubler Associates financial statements which indicate that they are not independent with respect to each of these companies. Nick Lang explained why this statement is included in the financials. West Martin pointed out that the company is making good profits and questioned why they need additional financing from the RLF. Darren Janes reported that this is likely a product of the current economy. Owners have received

lending approval from two banks up to a certain level but not the full amount required to purchase this equipment. Both of these lenders would require the RLF funds to fill that gap and essentially spread the risk. The business has exhibited their ability to increase growth and sales since the companies inception. He explained that the current loan is through Cheever Holdings, LLC. The total equipment cost is \$660,000 and the loan with Wells Fargo Bank has already been executed. The equipment is on order but will not be received for another couple of weeks. Owners have funded the down payment for this equipment through their own working capital in order to facilitate building of the equipment. Approval of this loan will provide gap funds in the amount of \$80,000 and the owner will inject the remaining \$26,000. Scott Jolley pointed out that their existing equipment would have depreciated, but it appears that it is shown at a baseline value of \$229,000 on financial statements. Statements indicate that this equipment has been paid off and could likely be used as a basis to receive funding from a lending institution.

Nick Lang questioned if this is the best use of RLF funds to provide financing to a very profitable business. It may be prudent to consider lending to new businesses given the limited funds that are now available in the RLF account. Darren Janes explained that there are still funds available for lending in the micro loan account. If this loan is approved, the regular RLF account balance would be around \$30,000. Ken Sizemore commented that the purpose of the Revolving Loan Fund is to fill gaps in lending structures and the company has documented a classic gap. There are other companies out there that may be able to use the money, but they are not knocking on the door. He explained that funds are being repaid into the RLF account which provides additional lending opportunities down the road. West Martin pointed out that the company has made over \$500,000 in profit, is able to provide \$26,000 toward this acquisition and yet they cannot fill this gap. This is somewhat of a concern if another company that has a gap in funding was to submit an application next month. Ken Sizemore responded that staff is approaching this from a simplistic analysis that the bank will only fund a certain amount and there is a gap in funds required to purchase the equipment. The question is whether the company can make up the difference. Darren pointed out that it is difficult to determine which loans to bring before the RLF Board, but it is good that the company is in this position.

Karen Cheever reported that Darren has been an integral part of the company being able to finance equipment necessary for operation. The company has been operational for seven years, mostly doing small parking lot jobs in the beginning to supplement income from their regular employment. As growth occurred, they branched out into some highway striping for the Utah Department of Transportation (UDOT) and federal highways. At this point, the company grew 700 percent from 2006 to 2007. The company has continued to grow requiring additional human and physical resources to keep up with all of the jobs. By 2010, a lot of their debt had been paid off and equipment was owned outright. UDOT contracts now require a new type of equipment for a groover or saw truck. Paul Cheever explained that markings are being shaved off by snow plows which eliminates the potential life of these markings. Markings that are recessed under the surface provide a longer life and striping with grooved markings has proven to be very beneficial. All of the I-15 corridor work in the Utah County Core Project will have recessed and grooved in marking. UDOT currently has a huge contract statewide through their maintenance program to grind and recess markings. Representatives from various other states are following the lead of Utah and have been contacting Straight Stripe to perform this type of work. Karen Cheever indicated that this will be an instrumental piece of equipment in growing the company. The company has been able to secure more in contracts in the first quarter of this year than in any past year of operation. Some contractors have actually utilized Straight Stripe even though

they were not the low bidder because of their reputation, timeliness and reliability. Over the past year, the company had over 30 employees on their payroll and anticipates about the same number of employees will be needed this year. They were able to retain three additional salaried employees through the past winter. Purchase of this equipment will help to grow the company and also provides potential income for years to come. She shared copies of job solicitations from the Utah Department of Transportation as well as Idaho Department of Transportation. There are only three companies that have this type of equipment and two are not setup to handle the type of volume many of the jobs require. In addition, the other companies equipment does not have current technology. Karen pointed out that they have a unique relationship with the equipment manufacturer, Arrow Striping and Manufacturing, out of Billings, Montana. Paul and Ryan actually worked with the manufacturer to design a machine that will work better than any other piece in the state of Utah. This equipment expedites the process through the use of new technology. The company has several revenue streams including parking lots, signs, striping removal, etc. In St. George and actually south of Provo to Las Vegas, Straight Stripe is the only company with striping trucks other than Washington and St. George cities. No company in the area has a groover. She acknowledged that there are some competitors for parking lots and signs.

Nick Lang thanked owners for their presentation and indicated that Darren would contact them later today with the Board's decision.

MOTION WAS MADE BY JEFF MARCHANT TO APPROVE THE LOAN IN THE AMOUNT OF \$80,000 TO CHEEVER HOLDINGS, LLC, AT SIX (6) PERCENT INTEREST RATE AND A FIVE (5) YEAR TERM SUBJECT TO THE FOLLOWING CONDITIONS: 1) 2ND LIEN POSITION ON THE NEW TRUCK; 2) PERSONAL GUARANTEES OF RYAN, KAREN AND PAUL CHEEVER; 3) UCC-1 LIEN ON ALL BUSINESS ASSETS; AND 4) CURRENT BALANCE ON THE EXISTING FIVE COUNTY LOAN IS ROLLED OVER INTO THE NEW LOAN. MOTION WAS SECONDED BY WEST MARTIN AND CARRIED BY UNANIMOUS VOTE.

3. **Techies, LLC.**: Darren Janes indicated that this request is for a micro loan in the amount of \$25,000 and does not require bank participation. Dustin Pederson, owner, provided a summary of the technologies being utilized and the market that his company is targeting. One of the technologies is a game and right now 55% of all Americans play some form of game indicating the gaming is the new American pastime. The company has developed a 3-D game which has allowed them to keep costs very low. A studio generally utilizes millions of dollars when developing a 3-D game and it takes four years of development time. Techies has about seven years of development time into their game and very low funding because they have developed the game themselves. The company is in a good financial position to launch this game and get hundreds of thousands of subscriptions. He provided an example of a game currently on the market and the number of subscribers paying \$15.00 per month. Gamers are driving the industry in terms of technology. New processors and video card technology are coming from that industry. Gamers are willing to spend their money for the latest and greatest technology. The gaming aspect is actually a fairly inexpensive form of entertainment and the industry is booming. Techies also provides e-commerce technology which is really going to revolutionize the way business is done online. There are a lot of costs associated with building a website, gearing it towards the product line and compiling all of the data. The Techies gaming system automates all of these items and it can serve any product from any domain.

Techies will be targeting higher market products and mixing that in with their gaming site. The company will also be selling virtual gifts which is an important aspect of what

the company is doing in terms of gaming items. These virtual gifts sell for \$2.00 up to \$20,000 for something that does not actually exist. This provides the company the ability to sell something that is not tangible or real at a 100% profit and it can be sold as many times as the company wants. A good example is an advanced piece of armor, a sword, another horse, etc. The company will be facilitating the ability for the gamer to excel in the game and get something without putting effort and work into getting it. Some things in this game may take months or even years to obtain and thus the high price tag on some of these items. A lot of the developers have been trying to prohibit the sale of virtual items in their games. Techies would be the first developer to actually embrace and facilitate the sale of these virtual items on their site. Because of this, it will provide a more secure environment for the buying and selling of virtual items. The sale of virtual items is its own industry even though there are many developers trying to prohibit these items. The company is considering development of a port over to the I-Pad because their game actually supports Lynux, Macintosh, Windows, and also some mobile phones. Support of the I-Pad will require a small amount of engineering, but this would be the first multi-massive online (MMO) role-playing game available on the I-Pad platform. There are currently 40-50 million active subscriptions for online gaming.

The company currently has a server with two hard core processors and 8 gigs of RAM. The current network is capable of supporting approximately 500 active connections or about 2,000 users. The company would like to double the server capacity to 16 gigs of RAM. Internet service is provided through Xpress Web, who is the internet service provider in the Kanab area. Xpress Web is in the process of upgrading their services in order to support what the company is doing. The e-commerce system allows the company to sell either tangible or intangible products. A community site, such as Face Book, targets gamers and offers products that these users want, both tangible and intangible. This occurs by selling them high end computer systems and/or intangible gaming items. The end product of the company is to establish warehousing operations located in Kanab to actually fill orders for tangible products. The company anticipates that over the next three years they will develop a system that provides a working base of 50 to 100 high and/or low end paying jobs in the area. Lower end jobs would include fulfillment in the warehouse, data entry, etc. High end positions would be comprised of customer service and computer programming.

Dustin Pedersen provided some visuals depicting how the e-commerce system works for other customers in the Kanab area. The site developed by Techies is generic and can handle any industry without having to tailor the site to a specific company. Trademarks are not yet in place for the game, but owners are in the process of obtaining them. This has not been a big concern up to this point because they have been focusing on development of the game. Mr. Pedersen and his wife are the only paid employees at this point, but the company is working with other independent contractors on the technical side. It is likely that individuals with high tech experience will be required to move into the area to fulfill some of the more technical positions. He also provided a demonstration of the actual game for members to see how it works. This particular game has a lot of action that is constantly changing. Gamers will not actually be able to beat the game because of the constant changes in the world. Graphics for this game are far superior to other online games. The game depicts the medieval world and gamers can enter as a warrior or wizard. Gaming is very addictive and really draws people in, similar to Face Book when they got into the arena with their farm game.

Darren indicated that he spent the better part of a day in Kanab to become more familiar with the company and what is being offered. He entertained questions about the company financials, growth projections and/or revenue streams. The business is very complex in nature and owners definitely have a grasp on all of the components involved. Jeff Marchant expressed concern in terms of the rapidly changing online world and potential for someone

to develop a better product or devise a way to encroach upon this companies product. How does the company insure that their product will not be obsolete in the next week or month. Mr. Pedersen responded that gaming is very unique and kind of protected in this regard because gamers love their games. An example is the Nintendo or Atari systems which were introduced many years ago and people are still playing games on these systems. The X-box, X-box 360 and Play Station 3 are still very popular with gamers. A number of games are over 10 years old but people are still playing them. Their e-commerce project is pretty unique because there is no way to know the technologies behind the scene such as servers or software. The software allows the client to see only what the company wants them to see. The vehicles listed on the financial statements are utilized for the on-site repair service end of the business. The company has a very successful brick and mortar store that they have operated since 2006.

Nick Lang thanked representatives for sharing information and answering questions about their business. He noted that Darren would contact them later with the Board's decision.

West Martin suggested that the company needs to foster their relationship with the bank because future expansion will require much larger bank participation. The company has secured a \$25,000 loan with Zions Bank and is requesting \$25,000 from the RLF program. Darren explained that the two programers that the company has on contract are very expensive. Commissioner Matson reported that the current store front is located on a main thoroughfare and has a lot of visibility. Scott Jolley pointed out that the profit and loss from the first of the year shows a net income of \$2,200 and no salary or payroll is included in the statement. The business has a good concept and the loan will definitely help the company to be successful. Nick Lang expressed concern that no funds have been set aside for future growth. Darren explained that the micro-loan program is good because of the close contact with the Small Business Development Center (SBDC) and guidance provided in moving toward reinvestment in the business. With the continued support of the SBDC, owners will have access to this type of guidance in moving the business forward in the future. Scott Jolley expressed the need for owners to obtain further education in business management, budgeting and accounting. Darren noted that a fundamental requirement of the micro loan program is that business owners gain some additional training, but it may be difficult to require a business to get additional training as a condition of the loan. He pointed out that the brick and mortar business operation has been successful and encouraged Board support of this loan. The purpose of the micro-loan program is to provide additional economic development opportunities. Mr. Sizemore suggested that owners need to show more progress with the concept and operating history prior to securing a micro-loan. Darren explained that the business is in the process of launching the product and needs to secure the additional funds for licensing costs and to pay the contracted programmers.

MOTION WAS MADE BY COMMISSIONER JIM MATSON TO DENY WITH THE OPPORTUNITY TO COME BACK TO THE BOARD IN APPROXIMATELY SIX MONTHS, ONCE THE NEW BUSINESS VENTURES ARE OPERATIONAL. MOTION WAS SECONDED BY WEST MARTIN AND CARRIED BY UNANIMOUS VOTE.

Darren reviewed Board concerns as follows: **1) Repayment Ability--** Short term cash flow concerns; **2) Minimize Long-Term Debt--** The Board feels that drawing on the existing Zions Bank line of credit will fully exhaust this resource prior to additional debt being taken on; and **3) Lack of Operational/Financial Experience Related to the New Business Ventures--** Approximately six months should resolve this concern.

C. BOARD DISCUSSION AND DELIBERATIONS

- 1. Current Requests:** Deliberations are included above for each loan under consideration.

2. **Loan Portfolio Status Report:** Mr. Sizemore provided an update on Skyline Forest Products and noted that the company has been pursuing the injection of additional funding to help get the mill capable of producing another type of product which is focused on pallet manufacture. Staff is not aware of where the lending institutions are at this point. No real progress has been made since the last report to this Board. Darren indicated that no payments have been received from Black Ridge, but the owner has gathered enough funds to make the April payment to the bank. One payment has been received from Alpha One, but the company is struggling to make payments because there were no fires last year. He is hopeful that business will pick up this fire season.

MOTION WAS MADE BY WEST MARTIN, SECONDED BY SCOTT JOLLEY, TO ADJOURN.

The meeting adjourned at 12:45 p.m.