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To: Taylor Zeinert, Economic Development Director
Community Development Authority Board

From: Rachelle Blitch, Financial and Administrative Services Director

Re: Scanalytics and Slipstream LLC., Status

A request was made by the CDA to give an updated status on outstanding loans for Scanalytics and Slipstream LLC. I have reviewed each of their files thoroughly. Below is their background and my findings:

Scanalytics

Background

On October 26, 2015, they received a capital catalyst loan amounting to \$97,500. A secured promissory note (**Exhibit 1**) and a general business security agreement (**Exhibit 2**) were executed under the following terms: a 5-year loan at an interest rate of 4%, with all principal and interest due on the maturity date of October 26, 2020. Payments were to be made annually on the anniversary date, based on the applicable percentage of the prior four quarters' net revenues. Additionally, they were required to submit annual financial statements and maintain an office in Whitewater.

Findings

1. Scanalytics defaulted on their loan and a demand letter (**Exhibit 3**) was sent on August 8, 2018, for the full amount of \$108,630.39.
2. On August 30, 2018, an email (**Exhibit 4**) response was received from the president, Kathy Hust, providing an updated payment schedule (**Exhibit 5**), the financial reports for 2016 (**Exhibit 6**) and 2017 (**Exhibit 7**) and agreed to house their marketing group in their office at the Innovation Center.
3. On February 27, 2019, a forbearance agreement (**Exhibit 8**) was established with the following terms: the CDA agreed not to increase the interest rate to 15% unless a future triggering event occurred. Scanalytics was required to pay \$8,125.27 on or before March 15, 2019, and to relocate their marketing department to the Innovation Center on or before June 1, 2019. Additionally, Scanalytics agreed to cover all attorney fees and other expenses incurred in relation to their loan default.
4. On March 26, 2019, a payment (**Exhibit 9**) in the amount of \$8,125.27 was received.
5. No other payments or financial reports have been received to date.

Recommendations

It would be advantageous to permit the attorney to determine whether collection could be pursued and by what means. The company remains operational, and I have ordered copies of

their financial documents from the DFI website for 2017 to compare with their most recent submission (believed to be 2023) to assess their capability to repay the outstanding loan. The total Principal due is \$97,500.00 and interest due is \$90,119.63 (15% starting on 08/31/2018) total due as of 07/31/2024 is \$187,619.60.

Slipstream LLC.

Background

Slipstream LLC has a total of two outstanding loans and one line of credit. On September 4, 2013, a secured promissory note (**Exhibit 10**) and a general business security agreement (**Exhibit 11**) were executed for a capital catalyst loan amounting to \$102,500. The terms are as follows: a 2-year loan at a 4% interest rate, with all accrued but unpaid interest due on the first anniversary date. Principal payments of \$25,000 plus interest were to be made on December 31, 2014, March 31, 2015, and June 30, 2015, with the final payment of all outstanding principal and interest due on the maturity date of September 4, 2015.

On September 23, 2014, a secured promissory note (**Exhibit 12**) was obtained for a capital catalyst loan amounting to \$42,000. The terms are as follows: a 5-year loan at a 12% interest rate, with payments required to be made on the anniversary date each year based on the applicable percentage of the prior four quarters' net revenues, and the submission of annual financial statements was mandatory.

Findings

1. A memo (**Exhibit 13**) from Executive Director Pat Cannon, dated July 2, 2013, explains the initial changes that needed to be made before the loan could be finalized. Of note, he states that a personal guarantee should be obtained however, it was never followed through.
2. To investigate why a personal guarantee was not obtained, I located an email (**Exhibit 14**) from James Jackson, Slipstream's COO, to Executive Director Pat Cannon, dated July 9, 2013, in which he expressed his opposition to signing a personal guarantee. A follow-up memo (**Exhibit 15**) from Pat Cannon to James Jackson, dated the same day, explained the necessity of a personal guarantee and outlined the board's actions, along with two alternative offers that did not require a personal guarantee.
3. On April 17, 2014, an email (**Exhibit 16**) from Slipstream's CEO, Choton Basu was received requesting a line of credit in the amount of \$32,000. A business credit agreement (**Exhibit 17**) was obtained for the request with the following terms; 6% interest rate and the entire sum would be due in one payment at the maturity date of April 17, 2015. The draw dates and amounts (**Exhibit 18**) are as follows; \$6,000 in April 2014, \$6,000 in May 2014, \$14,000 in June 2014, \$2,000 in June 2014, and \$4,000 in September 2014. This line of credit was paid off in February 2015.
4. December 31, 2014, was the first due date for the \$25,000 of principal and any accrued interest however, a memo (**Exhibit 19**) from Pat Cannon dated January 20, 2015, explains that the former CFO/COO James Jackson was the individual responsible for



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- negotiating the terms and the company was unaware and would like to request a modification of the repayment schedule. It is of note to mention that the original agreement (**Exhibit 10**) with the terms outlined was signed by their CEO Choton Basu. An interest payment in the amount of \$1,025 was received towards the \$102,500 loan.
5. A memo (**Exhibit 20**) from Pat Cannon dated February 17, 2015, outlines the status of the two capital catalyst loans and the line of credit. Slipstream requested an extension of another year on their line of credit and outlined the terms of the amended and restated secured promissory note for the \$102,500 and the \$42,000 outstanding loans.
 6. February 26, 2015, the amended and restated secured promissory note (**Exhibit 21**) for the \$102,500 loan went into effect with the following terms; 4% interest with the first payment of \$25,000 plus accrued interest due on December 31, 2015, and the remaining payments due on March 31, 2016, June 30, 2016, and the final payment due on August 29, 2016. The amended and restated secured promissory note (**Exhibit 22**) for the \$42,000 loan went into effect with the following terms; 12% interest and 5-year term, on each anniversary the applicable principal and interest is due with all payments and interest will be due by the maturity date of August 27, 2019.
 7. May 12, 2015, Slipstream took a draw on their line of credit (**Exhibit 23**) in the amount of \$10,000. In May of 2016, an additional \$2,500 was drawn from their line of credit. The line of credit expired at the end of May 2016 and the full amount became due. No payments were received.
 8. May 2016, an interest payment in the amount of \$750 was received, September 2016 an interest payment of \$200 was received, and October 2016 an interest payment of \$200 was received towards the \$102,500 loan.
 9. A memo (**Exhibit 24**) from Pat Cannon dated October 16, 2016, explained that Slipstream was requesting an additional draw of \$10,000 on their line of credit but it had expired. At that time, all three loans were in default.

Recommendations

It would be advantageous to have the attorney determine the possible avenues for collection. According to the DFI website, the business remains active, and I have ordered a copy of their most recent financial statements. The terms of the two loans specify that in the event of a default, the CDA is entitled to charge 15% interest, and all outstanding amounts become immediately due. The total principal due for the first loan is \$102,500 and interest due of \$137,161.70 (4% interest until the default date of 12/31/2015 and then 15% thereafter) for a total due of \$239,661.70. The total principal due for the second loan is \$42,000 and interest due of \$49,938.10 (12% interest until the default date of 8/27/2015, then 15% interest thereafter) for a total due of \$91,938.10.