


Memorandum

To: Mayor Westover and Assembly Members
CC: Jim Dinley, Theresa Hillhouse
From: Jay Sweeney, Finance Director 
Date: 9/17/2012
Re: Request For Restructuring of Baranof Island Brewing Company Loans

Baranof Island Brewing Company has made a formal request to restructure its two Southeast Alaska Economic Development Fund Loans into one new combined loan, with monthly payments not to exceed \$2,000 per month. Their request and supporting data is attached.

Background

On May 4, 2011, Armstrong, LLC entered into a secured loan agreement with the City and Borough of Sitka for \$282,000 through the auspices of the Southeast Alaska Economic Development Revolving Loan Fund (the "Stevens Fund"). The terms of the original loan were fixed monthly payments of \$1,635.62 at 3.5% simple interest over a term of 20 years. The current balance due on the loan, as of September 14, 2012, is \$268,737.31 plus accrued interest of \$373.77.

On April 6, 2012, Rick A. Armstrong, Suzan Hess-Armstrong, and Baranof Island Brewing Company, LLC (collectively, "the Borrowers") entered into a second secured loan agreement with the City and Borough of Sitka for an additional \$75,000 through the Stevens Fund. The terms of the original loan were payment in full of principal and all accrued interest at loan maturity on October 1, 2012 with 3.5% simple interest. The current balance due on the loan, as of September 14, 2012, is 75,000.00 plus accrued interest of \$1,150.69.

The Borrowers are currently fully compliant with all loan provisions and requirements.

Discussion

The request by the Borrowers is a success story and demonstrates both the purpose and potential of the Stevens revolving Loan Fund.

In the Spring of 2012, the Borrowers approached the City and Borough of Sitka for a second Stevens Fund loan, expressing that their business was experiencing severe cash flow pressures that were preventing them from expanding. The borrowers maintained that an additional cash infusion would allow them to meet their operating obligations while also affording them the opportunity to make investments necessary to expand the business.

At the time of their 2nd loan request, the Borrowers were not able to prepare a business plan or other financial records that would adequately demonstrate that they had the financial capability to repay a

second loan on a term basis. As a result, the City and Borough of Sitka was reluctant to enter into a second long-term loan agreement with the Borrowers. Instead, the Assembly elected to loan the Borrowers an additional \$75,000 on a short-term basis, to afford the borrowers both time to engage in financial planning and the liquidity to keep their business operating.

The Borrowers have utilized the proceeds from the second Stevens Fund loan wisely, to first stabilize, then expand, their business. Their business is now generating positive net cash flow from operations and they are in a position to begin repaying interest and principal on the second Stevens Fund loan. They have also developed a much stronger accounting and financial management system for their business. In particular, they have significantly improved their cash flow forecasting and management, and understand the cash flow requirements of their business.

I have met several times with the Borrowers to discuss the impending maturity of the second short-term loan. They have freely shared their financial statements and other business documents with me that demonstrate improving financial condition and cash flow, as well as increased knowledge and command of the cash flow requirements of their business.

A Possible Course of Action for the Assembly to Consider

If the outstanding principal and accrued interest of both existing loans is combined into one new loan, the loan balance would be approximately \$345,262. Level payments on a 20-year loan for \$345,262 at 3.5% interest is \$2,002.38/month.

Given this information, the Assembly may wish to authorize the Finance Director to negotiate a new loan agreement with the Borrowers which combines the two existing loans into one new combined loan. If such direction is given to the Finance Director, it should contain guidance as to term, interest rate, and collateral.

Dear Mayor and Assembly members,

We are writing to you as per our agreement of the Southeast Economic Development Loan funds arrangement that we have entered into with each other. The following is a brief narrative of the status of Baranof Island Brewing Company and other information concerning the loan.

Since receiving the funds we were able to complete our expanded and upgraded brewing system and are now producing steady consistent 310 gallon (known as 10BBL in the industry) batches of beer. We employ 5 fulltime staff members and 3 part time staff members in addition to Rick Armstrong and Suzan Hess-Armstrong. To date this year we have produced approximately 12,962.7 gallons with production increasing every month. Please see attached documents for detailed finances.

We are still maintaining an unbelievable local support and have also seen a considerable increase in tourists to the brewery this year. Kegged beer is available in most Sitka establishments as well as accounts in Petersburg and on Prince of Whale Island. Bottling has been challenging to keep up with since receiving our government approval of new labels designed by a local artist. We have a small used bottler that is very close to being online and once operational it should fill and cap approximately 480 bottles per hour. We continue to bottle by hand for now though and bottles are available for sale in most of Sitka's liquor stores as well as a couple of restaurants. We have accounts throughout the State and in Seattle requesting our bottles so that is an area we are vigorously working on to develop to keep up with and meet the demand.

City Finance Director Jay Sweeny has been a great help in guiding us to provide the requested documents and we feel fortunate to have him working with us. We are willing and obligated according to the agreement to share our financial records, but request that the detailed financial records are kept as private possible. These financial records are the heart of our company and disclosure to the public could have a negative impact on our business because of the sensitive nature. Additionally, we request that we remove our property at 212 Smith Street as collateral in turn for using the brewery itself as it is worth far more than the value of the loan.

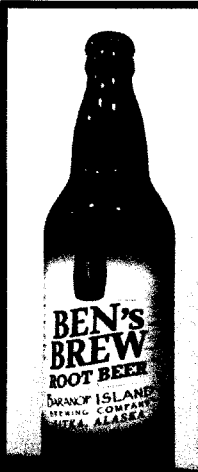
At this point in our operations we are able to manage \$2000.00/month in debt service. We ask that this is taken into consideration when structuring the debt repayment plan.

Please stop in or give us a call anytime as we would love to give any or all of you a tour so that you may see exactly where the loan was spent and how our business operates.

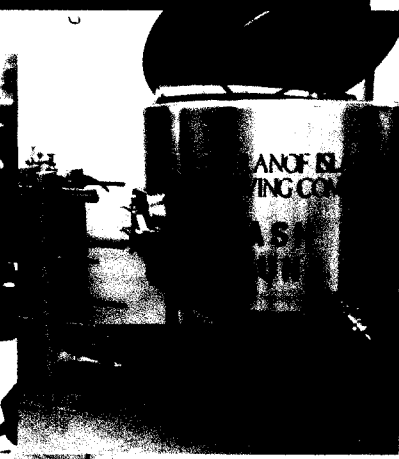
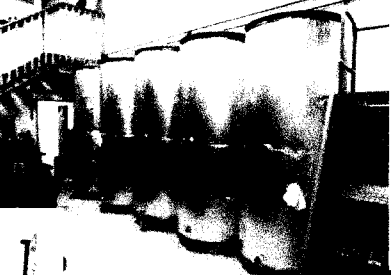
Sincerely,

Rick and Suzan Armstrong

The following page is of some pictures of the items purchased with the loan.



BARANOF ISLAND
BREWING COMPANY
Welcome to The Top of the World



**PROMISSORY NOTE ENTERED INTO WITH RICK A. ARMSTRONG,
SUSAN HESS-ARMSTRONG, ARMSTRONG, LLC, AND BARANOF ISLAND
BREWING COMPANY, LLC, RELATING TO CITY AND BOROUGH OF SITKA
SOUTHEAST ECONOMIC DEVELOPMENT FUND LOAN FOR BARANOF ISLAND
BREWING COMPANY, LLC**

\$75,000.00

April 6, 2012
Sitka, Alaska

FOR CONSIDERATION RECEIVED, **RICK A. ARMSTRONG** and **SUSAN HESS-ARMSTRONG**, individuals, P.O. Box 3144, Sitka, Alaska 99835, **ARMSTRONG, LLC**, a limited liability company, P.O. Box 3144, Sitka, Alaska 99835, and **Baranof Island Brewing Company, LLC**, a limited liability company, 212 Smith Street, P.O. Box 1647, Sitka, Alaska 99835 (collectively referred to as "Debtor"), individually and severally sign and are liable regarding this Promissory Note ("Note") relating to Assembly approval on March 27, 2012 of a City and Borough of Sitka Southeast Economic Development Fund ("SEDF") loan for Baranof Island Brewing Company, LLC. Debtor promises to repay the loan from the City and Borough of Sitka ("CBS") in the sum of **Seventy Five Thousand and 00/100 Dollars (\$75,000.00)**, to be paid in full by October 1, 2012 at **three and one-half percent (3.5%)** per annum interest rate by that date, and in accordance with this Note and any conditions specified in the Deed of Trust Regarding Promissory Note, executed at the same time as this Note.

The loan shall only be used for the following for Baranof Island Brewing Company, LLC.: deposits on kegs and bottling lines; purchase and installation of glycol chiller; and working capital. The loan may not be used to repay investments or loans made by the owners to the business, Baranof Island Brewing Company, LLC.

Debtor agrees to use as collateral for this loan to the fullest extent allowed by applicable laws, all Baranof Island Brewing Co., LLC accounts receivable, equipment, supplies and inventory. Debtor shall execute all necessary documents and pay any costs associated with the filing of a lien and/or other security interest documents relating to such collateral. In particular, the Debtor agrees to the filing and assisting with the preparation of any UCC filings regarding any equipment as listed in the above paragraph purchased with these loan proceeds, as well as regarding any current equipment of Baranof Island Brewing Co., LLC.

During the loan period, from the date of this Note until October 1, 2012, and for any extended period if such an extension is granted by CBS, Debtor shall remain current with any payments owed the CBS, including but not limited to payments for loans, leases, sales taxes, property taxes, utility payments, and any other CBS accounts. Additionally during this same period, Debtor shall comply with all CBS laws, including any building code, building permits, zoning code provisions, etc.

CBS may cause additional parties to be added or release any party, either with or without notice to the undersigned, either as co-maker, endorsers, or guarantors, or may extend the time for making any payment, or may accept an installment or full payment in advance, without affecting the liability of the undersigned.

The Debtor may prepay without penalty.

Should CBS take any action regarding default or to collect on this Note or any partial payment, or to protect its interest in this Note, Debtor agrees to pay all reasonable attorney fees, court costs (including fees and court costs in any appeal or bankruptcy proceeding and including on any matter this is specific to a bankruptcy proceeding), plus any actual expenditures incurred to secure the payment of or to collect on this Note.

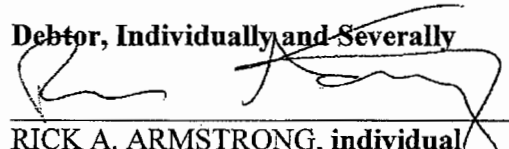
Debtor waives demand, protest and notice of demand, protest and nonpayment, and expressly agrees that this Note or any provision on this Note may be extended from time to time and consents to the acceptance of further security, including other types of security, all without in any way affecting its liability.

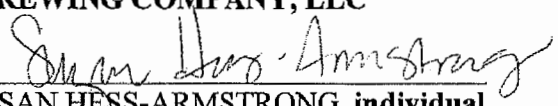
If default in the payment or any breach of the conditions set out in this Note or in the Deed occur, or in the prior Note and Deed executed on May 4, 2011, and such default or breach is not cured within ten (10) days after the written notice is mailed by CBS to Debtor regarding the default or breach, then the entire principal sum on this Note as well as the May 4, 2011 Note shall become at once due and payable at the CBS's option, as well as interest on any amount still owed at the interest rate of **twelve percent (12%)** instead of **three and one-half percent (3.5%)** per annum for this Note and for the May 4, 2011 Note.

Debtor is personally obligated and fully liable for the amount due under this Note. The CBS has the right to sue on this Note and obtain a personal judgment against Debtor for satisfaction for the amount due under this Note, in addition to, and either before or after, a judicial foreclosure of the deed of trust under AS 09.45.170-9.45.220.

Debtor agrees to pay the loan in full as set out in this Note and agrees to sign and record a Deed of Trust Regarding Promissory Note to be filed against the property it owns at 212 Smith Street.

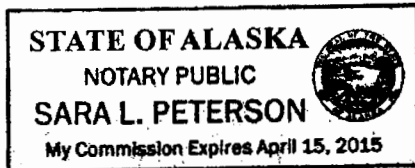
Debtor, Individually and Severally

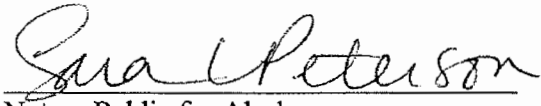

RICK A. ARMSTRONG, **individual**
RICK A. ARMSTRONG,
Member Manager **ARMSTRONG, LLC**
RICK A. ARMSTRONG,
Member Manager **BARANOF ISLAND
BREWING COMPANY, LLC**


SUSAN HESS-ARMSTRONG, **individual**
SUSAN HESS-ARMSTRONG,
Member Manager **ARMSTRONG, LLC**
SUSAN HESS-ARMSTRONG,
Member Manager **BARANOF ISLAND
BREWING COMPANY, LLC**

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

On this 6th day of April, 2012, personally appeared before me Rick A. Armstrong and Susan Hess-Armstrong, whose identities are personally known to me or proved to me on the basis of satisfactory evidence, and who by signing this document, swear or affirm that they individually and severally execute this document as individuals, and as member managers of Armstrong, LLC and Baranof Island Brewing Co., LLC, and are authorized to sign this document on behalf of themselves, Armstrong, LLC, and Baranof Island Brewing Co., LLC, and do so freely and voluntarily.




Notary Public for Alaska
My Commission Expires: 4-15-2015

RECORD AND RETURN TO:

Municipal Clerk
City and Borough of Sitka
100 Lincoln Street
Sitka, Alaska 99835

DEED OF TRUST REGARDING PROMISSORY NOTE

This Deed of Trust Regarding Promissory Note ("Deed of Trust") is made this 4th day of May, 2011, between Armstrong, LLC, a limited liability company, ("Armstrong" or "Trustor"), whose address is P.O. Box 3144, Sitka, Alaska 99835; and City and Borough of Sitka ("CBS" or "Beneficiary"), a municipal corporation, whose address is 100 Lincoln Street, Sitka, Alaska, 99835.

WITNESSETH:

For purposes of securing payment on a loan of **Two Hundred Eighty Two Thousand Eighty and 00/100 Dollars (\$282,080.00)** and with interest, based on the Promissory Note Entered Into With Armstrong, LLC Relating To City And Borough Of Sitka Southeast Economic Development Fund Loan To Baranof Island Brewing Company, LLC ("Note"), dated May 4, 2011, made by Trustor and payable to the order of the Beneficiary, Trustor irrevocably grants, transfers and assigns to Beneficiary in trust, with power of sale, real property in Sitka, Alaska, the following property (hereinafter referred to as "Property"), more particular described as follows:

Lot Six B (6B), Licari Subdivision, according to plat thereof filed April 23, 2003 as Plat 2003-10, Sitka Recording District, First Judicial District, State of Alaska.

In addition to provisions contained in the Note, which is attached to this Deed of Trust and incorporated by reference, Trustor further agrees to protect the security of this Deed of Trust and agrees to the following conditions as set out in this Deed of Trust:

1. **Insurance.** Trustor shall maintain property damage and comprehensive general liability insurance, including standard fire coverage insurance, in a minimum amount equal to the unpaid balance of the Note held by Beneficiary. Beneficiary shall be named as an additional insured.

2. **Default and Foreclosure.**

In the event of default under the provisions of this Deed of Trust and/or Note, Beneficiary may, at its option, execute or cause to execute a written notice of such default and of its election to cause the Property to be sold to satisfy the obligations secured by this Deed of Trust and in accordance with the Deed of Trusts Act of the State of Alaska, AS 34.10.070-135, as now enacted or amended, and the Uniform Commercial Code of the State of Alaska where applicable.

The power of sale conferred by this Deed of Trust and by the Deed of Trusts Act is not an exclusive remedy.

If Beneficiary elects to judicially foreclose this Deed of Trust as a mortgage, Beneficiary shall to the extent the Note represents a recourse debt be entitled to a deficiency judgment against Trustor, Trustor's assigns, surety or guarantor of the Notes subject to statutory right of redemption.

3. **Transfer of the Property.** In the event that Trustor shall sell, gift, convey, assign, further encumber or alienate the Property, or any part of or interest in the Property, or be divested of title or any interest (all of the foregoing being hereinafter called "transfer"), in any manner whatsoever, whether voluntarily or involuntarily, without prior written approval from Beneficiary, Beneficiary may, in addition to any other rights or remedies, at its option, declare all obligations secured by this Deed of Trust immediately due and payable. Beneficiary's option to declare all obligations secured by this Deed of Trust immediately due and payable may be exercised at any time after transfer is made, and acceptance of one (1) or more monthly payments made by Trustor or transferee shall not constitute a waiver of Beneficiary's option, nor shall be construed as a waiver of the provisions regarding any subsequent purchaser or transferee concerning the Property. Consent by Beneficiary to such transaction shall not be deemed to waive the right to require such consent to future transactions, and any consent given may be conditional.

4. **Miscellaneous Provisions.**

A. This Deed of Trust, together with the Note, set forth the entire agreement of the parties as to the subject matter and supersedes all prior discussions and understandings between them. This Deed of Trust may not be amended, changed, altered, or rescinded in any manner except by an instrument in writing signed by a duly authorized officer or representative of each party.

B. This Deed of Trust, together with the Note, shall be governed by and construed and enforced in accordance with the laws of the State of Alaska, except as otherwise provided in this Deed of Trust or Note.

C. Should any of the provisions of this Deed of Trust and/or Note be found to be invalid, illegal or unenforceable by any court of competent jurisdiction, such provision shall be stricken and the remainder of this Deed of Trust or Note shall nonetheless remain in full force and effect unless striking such provision shall materially alter the intention of the parties.

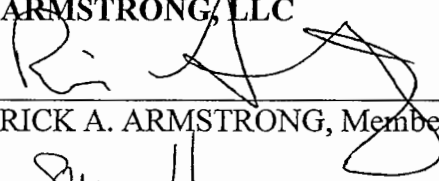
D. In the event any action is brought to enforce this Deed of Trust and/or Note, the parties agree that in any such action, venue shall be exclusively at Sitka, Alaska, First Judicial District, State of Alaska.

E. Paragraph headings contained in this Deed of Trust are included for convenience only and form no part of the agreement between the parties. This Deed of Trust shall not be construed for or against the drafter or any party, but instead fairly according to its terms.

F. Unless otherwise provided in this Deed of Trust, all notices or requests required or permitted under this Deed of Trust shall be in writing, personally delivered or sent by certified mail, return receipt requested, postage prepaid and deemed given when so delivered or mailed, irrespective of whether such notice or request is actually received by the addressee. Notice shall be sent to the parties at the addresses set forth in the introductory paragraph of this Deed of Trust. Either party may change the address to which notices shall be sent by notice to the other party.

G. This Deed of Trust shall be binding upon, and inure to the benefit of, the parties and their respective successors and assigns.

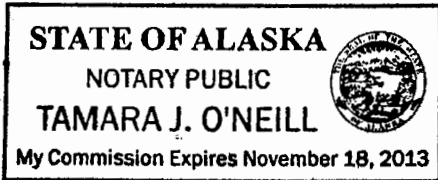
Trustee
ARMSTRONG, LLC

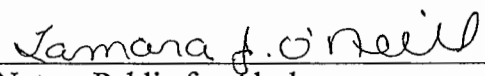

RICK A. ARMSTRONG, Member Manager


SUSAN HESS-ARMSTRONG, Member Manager

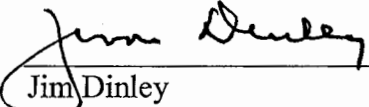
STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

On this 4th day of may, 2011, personally appeared before me Rick A. Armstrong and Susan Hess-Armstrong, whose identities are personally known to me or proved to me on the basis of satisfactory evidence, and by signing this document, swear or affirm that they are member managers of Armstrong, LLC and are authorized to sign this document and do so freely and voluntarily.



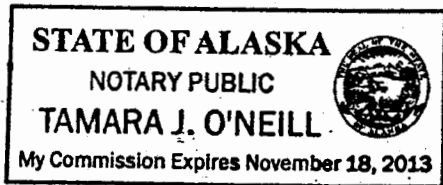

Notary Public for Alaska
My Commission Expires: 11/18/11

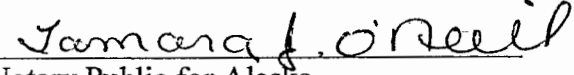
Beneficiary
CITY AND BOROUGH OF SITKA


Jim Dinley
Municipal Administrator

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

THIS CERTIFIES that on the 4th day of may, 2011, before me, a Notary Public in and for the State of Alaska, personally appeared Jim Dinley, Municipal Administrator of the City and Borough of Sitka, Alaska, a municipality organized under the laws of the State of Alaska, and by signing this document verifies that he has been authorized to execute this document on its behalf, and he signs freely and voluntarily.




Notary Public for Alaska
My Commission expires: 11/18/13