

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MEETING OF THE FINANCIAL COMMITTEE OF THE
LOUISIANA ECONOMIC DEVELOPMENT CORPORATION, TAKEN
AT THE LOUISIANA STATE EMPLOYEES RETIREMENT
SYSTEM (LASERS), 8401 UNITED PLAZA BOULEVARD, 4TH
FLOOR, BATON ROUGE, LOUISIANA 70809, ON THE 19TH
DAY OF OCTOBER 2012 COMMENCING AT 9:26 A.M.

REPORTED BY:

RACHEL Y. TORRES, CCR, RPR
CERTIFIED COURT REPORTER

♀

1 BOARD MEMBERS:

2
3 THOMAS COTTEN
4 A. J. ROY
5 ANNE VILLA
6 JULES (JAY) ROUSSEAU
7 JASON EL KOUBI
8
9
10
11 STAFF MEMBERS:
12 DARI A VINNING
13 RICK BROUSSARD, ESQ.
14 BRENDA GUESS
15 SUSAN BIGNER
16 BOB CANGELOSI
17 SAJNI PATEL
18 FELI PE MARTINEZ
19 ERROL SMITH
20 ROBIN TATE
21
22
23
24
25

♀

1 MR. COTTEN:
2 Good morn ing. Thi s i s the
3 Fi nance Commi ttee Meeting of the
4 Loui si ana Economi c Devel opment
5 Corporati on. Today i s Fri day,

LEDC FINANCE- 10-19-12.txt
October 19th. Call to Order. I

will be substituting for -- as
Chairman for Mr. Robert Stuart.

Roll call, please.

MS. VINNING:

Thomas Cotten.

MR. COTTEN:

Here.

MS. VINNING:

Anne Villa.

MS. VILLA:

Here.

MS. VINNING:

A. J. Roy.

MR. ROY:

Here.

MS. VINNING:

We have a quorum.

MR. COTTEN:

Good morning. We're going to

start out today with Mr. Aaron
Cooper's audit of the LEDC
financial statements as of June
30, 2012.

MR. COOPER:

Thank you, Mr. Cotten. Does
everybody have a copy of the
report? I'm sorry.

Like Mr. Cotten said, I'm

10 Aaron Cooper. I am the auditor
11 for LEDC. I'm presenting audit
12 for the year ended June 30, 2012.
13 If you'd like to turn to my
14 report on page 1, I have reported
15 in my opinion that this is a -- I
16 had reported an unqualified
17 opinion on the financial
18 statements which many times
19 believe I fairly stated in all
20 material respects.

21 We can go ahead and go
22 forward to the balance sheet on
23 page 10, and we'll just go --
24 kind of go through the major
25 changes year after year from 2011

♀

1 to 2012. As you can see, there
2 was a large decrease in cash. A
3 lot of that is due to at the end
4 of last year, the end of 2011,
5 there was \$34 million that was
6 placed in LEDC -- in the LEDC
7 funds that -- that was owed back
8 to the State of Louisiana and the
9 State of Louisiana threw it back
10 down right after year end, so
11 that's the largest part of it.
12 The rest of it is mainly from the
13 operations, the funding of -- of

LEDC FINANCE- 10-19-12.txt
14 the programs during the year.

15 Let's see. We can go ahead
16 and go over to page 11, state of
17 operations. Most significant
18 thing in the operating revenues
19 is we did have a pretty good size
20 gain on sales of the investments.
21 That was primarily due to one of
22 the venture capital funds
23 reimbursing -- or not
24 reimbursing, but giving back
25 moneys that they had earned on

♀

1 sales of investments.

2 Go down to the operating
3 expenses, they are pretty level
4 year after year. Down in the
5 non-operating revenues and
6 expenses, the main item -- main
7 change there is there was a \$12
8 million transfer out to economic
9 development for -- to fund
10 certain programs that are outside
11 the LEDC parameters.

12 I was going to go down to --
13 let's see. Investments, I was
14 going to go through those real
15 quick on page 17, Note 3 we have
16 investments at the end of the
17 year that costs the LEDC

LEDC FINANCE- 10-19-12.txt
18 \$47,700,000. We have written it
19 down -- them down by \$30 million
20 to their fair values. That gives
21 us a carrying value as of the end
22 of the year \$17 million. Now,
23 these investments, once they're
24 written down they cannot be
25 written back up, but some of the

†

1 investments that were initially
2 written down have improved on
3 their fair value, so the fair
4 value at the end of the year was
5 \$28 million. However, for
6 accounting purposes, we had to
7 leave them at 17. They can't be
8 written up once they've been
9 written down for impairment.

10 Page 19 kind of gives you
11 some of the larger investments,
12 and then there is a -- a schedule
13 of what -- what investments were
14 written down during the year.
15 Let's see. Over on loans, page
16 21, you will see a significant
17 decrease in what we call direct
18 loans. That's primarily -- there
19 was a seven and a half million
20 dollar loan to the Superdome, the
21 organization that runs the

LEDC FINANCE- 10-19-12.txt
22 Superdome. They paid that back
23 right at the end of the year,
24 like June 29th. I think it was
25 due June 30th. That's the biggest

♀

1 part of that decrease.

2 I'm going to go ahead and go
3 to the finding -- well, we did
4 have to go back and adjust
5 beginning balances. Go to that
6 footnote first. Should be on the
7 last page of the notes.

8 Page 25, the last footnote,
9 and then we'll get into this a
10 little bit more when we discuss
11 the finding. We ended up having
12 to restate the beginning years
13 fund balance by \$763,000. That
14 was due to some changes we had to
15 make, and we've -- we've had to
16 deal with these EDAP's several
17 years in a row, it seems like,
18 and what I'm referring to now is
19 on page 32, the first finding. I
20 don't know if you recall, last
21 year the corporation decided that
22 some of the programs that we were
23 going to -- we were considering
24 as grants they were going to try
25 to clawback some of those moneys,

♀

1 so we ended up making a -- having
2 to put those back on the books
3 similar to the other job credit
4 awards. At that time we had
5 decided to amortize those SS
6 based on their clawback
7 calculations and -- but when we
8 got into this year we discovered
9 -- the legal department
10 discovered there's some conflicts
11 in the wording of the contracts
12 and so there was kind of a
13 disconnect between the way the
14 accounting should work for those
15 contracts and the way the
16 clawbacks were being calculated,
17 so we had a discussion with --
18 with management and Ms. Villa and
19 came up with a better accounting
20 for those and that caused us to
21 have a \$700,000 adjustment to the
22 beginning of the year.

23 Any questions on that? I'd
24 kind of -- all right.

25 We did have a finding related

♀

1 to the -- the SSBCI. We were just
2 -- just for better tracking

3 purposes, I was going to
4 recommend that this program be
5 under its own R code or fund or
6 whatever way that we can track it
7 completely separately from
8 everything else. The expenditures
9 in the program are tracked
10 separately but the revenues are
11 intermingled with some other
12 federal funds, so we were hoping
13 that maybe we could go ahead and
14 get that completely separate so
15 there's -- it can be tracked
16 separately. Has that been done
17 or --

18 MR. SMITH:

19 Done.

20 MR. COOPER:

21 Okay. Good. And that's really
22 all I had. Are there any
23 questions?

24 MR. COTTEN:

25 Any questions? Comments?

♀

1 MR. ROY:

2 I move to accept the
3 auditor's report.

4 MR. COTTEN:

5 I have a motion. Do I have a
6 second?

7 MS. VILLA:
8 I'll second.
9 MR. COTTEN:
10 Do we ask for public comment
11 now? Public comments. All in
12 favor, aye?
13 ALL BOARD MEMBERS:
14 Aye.
15 MR. COTTEN:
16 Aye. Oppose? None. Motion
17 passes. Thank you, Mr. Cooper. I
18 appreciate your hard work there.
19 MR. COOPER:
20 All right. Thank you.
21 MR. COTTEN:
22 Next item is evaluation of
23 LEDC investments as of June 30th.
24 We have Chaffe & Associates, and
25 Mr. Marc is going to give his

♀

1 presentati on. Pronounce your last
2 name for me, please.
3 MR. KATSANIS:
4 Katsani s.
5 MR. COTTEN:
6 Thank you.
7 MR. KATSANIS:
8 Make sure you guys -- I guess
9 what I'll start off by doing is
10 i ntroduce my fi rm to you guys who

11 haven't heard us present before.
12 We're an investment banking firm
13 based in New Orleans. We've --
14 one of our areas of specialties
15 is business valuation. I guess
16 we've been doing sort of a mark
17 to market valuation of all LEDC's
18 investments in 2006. I guess what
19 I'll do is we have a summary
20 table -- if you turn to -- it's
21 toward the back, Exhibit 19.
22 Everybody.

23 MR. COTTEN:
24 We're there.

25 MR. KATSANIS:

♀

1 Okay. Great. I guess what
2 I'll do is just give you guys a
3 overview of each of these
4 investments, and at the end, if
5 anyone has any questions or
6 comments, we'll address them.
7 Let's see. The starting points --
8 there are two classifications
9 here: Investment companies that
10 are either lenders or investment
11 funds, and then there are
12 operating companies that are
13 direct investments in a company
14 that's producing product or

15
16
17
18
19
20
21
22
23
24
25

service.
Starting off with the investment companies, Audubon Capital Fund, which is a mezzanine lender, I believe, in Covington. This one -- this one was a write-down. A write-down. Aurora Ventures, that's a venture capital fund. This one had a slight increase in value as well as the small distribution to

♀

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18

LEDC. Birchmere Ventures, that's also a venture capital investment fund, which had a distribution based on a sale to lender investments of LEDC and a small increase in the remaining portfolio.

Business Resource Capital, that's a CAPCO, which had a -- had a small increase in -- in its value.

Gulf Coast Business and Industrial Development, that's another CAPCO which had a small decline.

Jefferson Capital was another mezzanine investment fund, which had a -- a small distribution and

19 an increase in -- in its value
20 for the year.

21 Louisiana Fund is a -- is a
22 venture fund which had, I guess,
23 both a capital call, a
24 distribution as well as some
25 increase in value of its

♀

1 portfolio.

2 Louisiana Ventures is another
3 venture capital fund had a --
4 just an increase in its portfolio
5 value.

6 Murphree Venture, that's
7 another, I guess, private equity/
8 venture capital fund which had a
9 write off or a loss in the value
10 of its investment portfolio.

11 Next on the list, Source
12 Capital, no distributions but
13 just a -- a slight increase in
14 the market value of its
15 investments.

16 And moving on to the
17 operating companies, Endgame --
18 pardon me. Endgame Entertainment,
19 that's a film production company.
20 They had, I guess, a write-down
21 over the year.

22 Moving on to the next one,
Page 13

23 Northpeak Wireless. This -- this
24 is actually a -- a patent holding
25 company that was spun out of

♀

1 Formerly Investment Axonn. This
2 is -- this was the first year
3 that we've had -- been able to
4 obtain information to do a
5 valuation on this company. We are
6 putting that on at \$78,000.

7 NOXA Holdings, that is the
8 company that was Formerly Axonn,
9 that's the patent which were
10 Northpeak. There was a
11 distribution of capital and a
12 slight increase in the fair
13 market value.

14 Presonus Audio Electronics,
15 that's a manufacturer of mixers
16 and other types of equipment for
17 the music industry, and they've
18 had, I guess, a significant
19 increase in value over the past
20 year.

21 That concludes the investment
22 portion, and opening up for
23 questions if anyone --

24 MR. COTTEN:

25 Any questions of the report?

♀

1 MR. ROUSSEAU:
2 Audubon Capital, can you
3 explain just a little bit what
4 happened there.

5 MR. KATSANIS:
6 Sure. Sure. They are -- they
7 are, I guess, an SBIC, so they --
8 they have a -- I guess overseen
9 by the SBA and I guess as a
10 result of an SBA audit, they --
11 they had to write-down a large
12 loan that they had in their
13 portfolio which impaired it.

14 MR. ROY:
15 When did that take place?

16 MR. KATSANIS:
17 That took place in -- in the
18 -- I don't know the exact date,
19 but I guess in the first half of
20 2012.

21 MR. ROY:
22 Is that before or after the
23 investment, additional
24 investment?

25 MR. KATSANIS:

1 I believe it was after the
2 initial investment. My

LEDC FINANCE- 10-19-12.txt
3 understanding is that the
4 additional capital call they were
5 short of -- short of funds and
6 they had debt that was to the SBA
7 that was coming due, so they
8 needed to make an additional
9 capital call in order to satisfy
10 the SBA debt.

11 MR. ROY:

12 Do we know if that was
13 revealed at the time of the
14 request for the additional
15 investment?

16 MR. KATSANIS:

17 To my knowledge it was, yes.
18 We believe that that was stated
19 as the purpose for the call.

20 MR. COTTEN:

21 So, in effect, the investment
22 is value at zero, has this
23 company now foreclosed or is it
24 still operating? What's the
25 status?

‡

1 MR. KATSANIS:

2 It is still operating. I
3 guess there's -- they have a
4 number of investments that should
5 they have an exit could have some
6 appreciation in value. As far as,

LEDC FINANCE- 10-19-12.txt
7 you know, I guess if that does
8 not materialize then, I guess,
9 they've stated that they may need
10 to make another capital call in
11 order to meet future SBA
12 principal payments.

13 MR. ROY:
14 Is there any -- is there any
15 possibility of any SBA
16 forbearance that you know of?

17 MR. KATSANIS:
18 Not to my knowledge. You'd
19 have to speak to the manager of
20 the fund.

21 MR. COTTEN:
22 Do we have further exposure
23 on this entity as far as the next
24 capital call, are you aware of
25 that or staff or anyone?

♀

1 MR. BROUSSARD:
2 I think they called to
3 make --

4 MR. COTTEN:
5 Since June 30, 2012, do we
6 have any other exposure?

7 MR. BROUSSARD: (MICROPHONE
8 OFF)
9 Not funded on this sheet. I'm
10 looking at June 30th was a

LEDC FINANCE- 10-19-12.txt
11 million nine thousand, and that's
12 what they drew out previously, so
13 I would think it's zeroed out.

14 MR. COTTEN:

15 So we're fully drawn down.

16 So --

17 MR. BROUSSARD:

18 Errol, does that sound right
19 to you.

20 MR. SMITH:

21 Yes.

22 MR. BROUSSARD:

23 It's fully drawn.

24 MR. COTTEN:

25 So our total investment in

♀

1 that, Rick, a little over \$2
2 million.

3 MR. BROUSSARD:

4 \$2 and a half million.

5 MR. COTTEN:

6 \$2 and a half million total
7 investment.

8 Marc, as you are going
9 through these companies, you
10 know, looking at their valuation,
11 I'm seeing a lot of book value
12 numbers from some of the
13 entities, which is really the
14 blue manager of -- the general

LEDC FINANCE- 10-19-12.txt
15 manager or whoever is fundi ng,
16 whoever is running their enti ty
17 they're putting their value on
18 i t.

19 MR. KATSANI S:
20 Ri ght.

21 MR. COTTEN:
22 I nstead of havi ng an
23 outsi de --

24 MR. KATSANI S:
25 That's correct. And i t's --

♀

1 each enti ty appli es the fair
2 val ue methodol ogy of i t
3 di fferenti ly. Some are more robust
4 than others.

5 MR. COTTEN:
6 Correct. Whi ch coul d lead --
7 the onl y way to real ly protect
8 our i nvestments woul d be to
9 requi re an i ndependent val uati on
10 on some of these enti ti es
11 reali zi ng Endgame Entertai nment
12 i s an operati ng enti ty i s -- i s
13 prett y much operati ng --

14 MR. KATSANI S:
15 Ri ght.

16 MR. COTTEN:
17 I t's not marki ng to market
18 any of thei r i nvestments because

LEDC FINANCE- 10-19-12.txt
they are operating --

19
20
21
22
23
24
25

MR. KATSANIS:

Right.

MR. COTTEN:

-- when you get into some of
these hedge fund type
investments. Is that something

♀

1 that we should adopt? Should we
2 consider that in the future or
3 give me your thoughts on that.

4 MR. KATSANIS:

5 Well, I guess the -- and, you
6 know, I guess some of these --
7 some of these companies do
8 actually get an outside
9 appraiser. I'm not sure if the
10 management of these companies
11 would actually be cooperative --

12 MR. COTTEN:

13 Right.

14 MR. KATSANIS:

15 -- is actually getting.

16 MR. COTTEN:

17 Right.

18 MR. KATSANIS:

19 Some outside firm to
20 establish their value that would
21 be different than the value that
22 they are establishing for their

LEDC FINANCE- 10-19-12.txt
financial statements.

23

MR. COTTEN:

24

Right.

25

♀

MR. KATSANIS:

1

Um, that might be something
that we could talk about and
explore.

2

3

4

MR. ROY:

5

What percentage of the
company -- of these type
companies on their own presumably
get outside valuations? I'm
talking about industrywide, not
necessarily our portfolio.

6

7

8

9

10

11

MR. KATSANIS:

12

In general, the smaller fund
will typically do inhouse
valuations under the gap. I guess
there's really no requirement
that you hire a third party, so
it probably is rather common for
funds of the size of the
investments that you guys hold
just sort of just do an internal
valuation.

13

14

15

16

17

18

19

20

21

22

MR. COTTEN:

23

I think a lot would depend on
the structure of the entity

24

25

♀

1 that's managing investment, how
2 they're -- if it's a limited
3 partnership in common stock how
4 that agreement is documented and
5 to do whatever they need because
6 they have investors that they
7 have to report to, some do --

8 MR. KATSANIS:

9 Yes.

10 MR. COTTEN:

11 -- to some degree. So I guess
12 what I'm saying is that as we
13 move forward as a Board investing
14 in these type entities, we need
15 to probably dig a little deeper
16 into the documentation of what
17 we're assigning to see if there's
18 a provision for valuation of the
19 investments that they're in from
20 an outside party so that
21 management is not arbitrarily has
22 the ability to mark that
23 investment as they deal with it.

24 MR. KATSANIS:

25 Yes. That would be -- that

♀

1 would be a wise move going
2 forward.

3 MR. COTTEN:

4 Because as I see our
5 investment, according to audited
6 financial statements on page 17,
7 we've invested at a cost of \$47
8 million in our investments. We've
9 had write-downs of \$30 million,
10 some who carrying at 17. With the
11 17 we're carrying, we have gains
12 of 11, so we're at 28, so that --
13 that would -- the write-downs are
14 from those valuations that we're
15 -- that the entities are putting
16 on those investments.

17 Okay. We'll just try and
18 improve the process and make an
19 informed decision. I thank you
20 for your comments and suggestions
21 and understand the limitations.
22 Are there any other questions?

23 MR. EL KOUBI :

24 Can you give us a sense of
25 when these investments were

♀

1 originally made.

2 MR. BROUSSARD: (Microphone
3 off)

4 Jason, this Audubon Capital
5 was approved by the LEDC Board in
6 August of 1999.

7 MR. EL KOUBI :

8 1999.
9 MR. COTTEN:
10 '99 or '91.
11 MR. BROUSSARD:
12 '99.
13 MR. COTTEN:
14 Okay. Do I have a motion to
15 accept?
16 MR. ROY:
17 So move.
18 MR. COTTEN:
19 Second?
20 MR. ROUSSEAU:
21 Second.
22 MR. COTTEN:
23 All in favor.
24 ALL BOARD MEMBERS:
25 Aye.

♀

1 MR. COTTEN:
2 Any oppose. Any comments from
3 the public? None. Okay. Thank
4 you, Marc. I appreciate it.
5 MR. KATSANIS:
6 Thank you.
7 MR. COTTEN:
8 Next order of business. We
9 have any other business. None.
10 Okay. Motion to adjourn.
11 MR. ROY:

12
13
14
15
16
17
18
19
20
21
22
23
24
25

I move to adjourn.

MR. COTTEN:

Thank you.

MS. VILLA:

I second.

(Whereupon the meeting was adjourned at 9:52
A. M.)

♀

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15

REPORTER'S CERTIFICATE

I, RACHEL Y. TORRES, a Certified Court Reporter, do hereby certify that the within witness, after having been first duly sworn to testify to the truth, did testify as hereinabove set forth.

That the testimony was reported by me in shorthand and transcribed under my personal direction and supervision, and is a true and correct transcript, to the best of my ability and understanding; that I am not of counsel, not related to counsel or the parties hereto, and in no way interested in the outcome of this event.

LEDC FINANCE- 10-19-12. txt

16

17

18

19

RACHEL Y. TORRES, CCR, RPR

20

CERTIFIED COURT REPORTER

21

22

23

24

25