

Minutes of the Special Board Meeting of the Gun Barrel City Economic Development Corporation

The Gun Barrel City Economic Development Corporation met in a Special Board meeting at the office located at 1720 West Main Street, Gun Barrel City, Texas, 75156 on Wednesday, Aug. 1st, 2012 at 3:00 p.m. Webster called the meeting to order at 3:00 p.m. with the following directors present: Baade, Spiegel, Cassady, Cavanaugh, and Rankin. A quorum was established. Sandy Janow was absent. Lance Reordan/Orasi Development, Steve Peace and Blake Smith/Movie Star Cinema were present.

Citizens in attendance: None

Item #1. Discuss and take action on any assistance needed for Movie Star Cinema.

Steve Webster called the special meeting to discuss ways to assist the owners of the theatre with digital upgrades. Owners Steve Peace and Blake Smith had talked to their bank, but the bank would not do anything for them.

The theatre was under performing and they thought that the loss of management in the beginning had been some of the problem, but they felt they had found a local person that had the potential to do well, but there was a nine month learning curve to management of a theatre. The slow economy had not helped. They were projecting sales to be less than a million this year. It would be profitable if they weren't paying legal fees, and contractors that weren't paid by the developer. Steve Peace thought there were fifty to eighty thousand dollars in repairs needed for the roof, walls sealed & painted on two sides and the canopy roof.

Steve and Blake had been out a substantial amount of money on the lawsuit against the inspection company. For the last year they and Woodforest Bank had been in a lawsuit with the company that inspected and signed off on the construction of the theatre as well as someone that was involved with the construction of the theatre. The bank did not have oversight of the inspection which allowed the builder of the theatre to walk away with \$1.5 million on the project. They reported that the agreement with the inspection company had two indemnity clauses and the bank recognized during the mediation that should the owners of the theatre win the lawsuit, the indemnity clause would make the bank pay the defendants. Therefore, Woodforest Bank pulled out of the lawsuit at the last moment. The theatre was in need of major repairs at this time and an upgrade to digital equipment would be costly.

Blake had worked on different ways for the theatre to go digital, but they all ended up with a shortfall of \$6,000 a month. There were four major digital companies that are producing equipment, but no one was sure how long the equipment would last. They would have to go digital by the end of September in order to qualify for the subsidy the film company was offering. Sony has a different deal; it's not a bad deal. It's more of a lease deal for ten years. The good thing about this deal is if you pay the maintenance fee, which is a little expensive on an annualize basis, they will replace it should something happen. If we purchase the equipment for six hundred grand and have it for five to seven years, it would have to be replaced at our expense should it go out. Sony's upfront cost is about twenty thousand per screen versus sixty-five thousand with another company. With Sony you paid four thousand dollars a year for each projector, which would be thirty-two thousand a year for the theatre. The digital system should run its self after the manager set it up for the week.

Spiegel felt the local people knew how to find information for the theatre, but the weekenders would have difficult time finding information. The building was dark at night; it doesn't look like its open. Spiegel felt signage and lights would be a great investment. The directors wanted to keep the theatre open.

Steve Peace said they were slowly starting to eliminate film. Unless you have digital for all of your screens there would be no films to show. Their other theatres were holding their own and would be going digital. Webster asked if they didn't go digital, the theatre would go out of business. Steve Peace said not immediately. Rankin asked if they wanted to sell. Peace said there was no way they could sell, because of the debt. Peace had been working with his bank, but the bank wanted to wait until their current EDC

agreement ended at the end of 2013. There are two notes on the theatre. One note has been put on the back burner and the second one's interest rate is 3 ¼ percent.

There is \$4.3 million owed on the property, they have a \$1.1 million note that is a non-performing and their balance which is performing at 3 ¼%. The bank is paid on a projected business level. Blake said they built the theatre for about \$ 2 ½ million, but they have a note for \$4.3 million. A lot of money walked away and the bank really saddled them with it and realized in the very end that they had probably screwed them, so probably all we can do at this time is let them out of the guarantee. Blake and Steve did not have the money to go after the bank. They were paying the film company 65% of the ticket sales and the bank a percentage of the ticket sales.

There was discussion on the lien position of the EDC should the EDC lease the digital equipment and then lease it to the theatre. Spiegel asked what they wanted from the EDC. Steve Peace said they were looking at a way to keep the place open, yet have it structured where the EDC would have some leverage with the bank if they get in hot water with the bank. They would have a right to keep the place open as long as they keep up the payments with the EDC. The original agreement would have to be checked to make sure it would allow a lease deal to be made. Webster asked Lance to run a spreadsheet with \$160,000.00 @ 2% over 7 years plus \$32,000.00 for the annual facility so the EDC could see what the numbers came out to be. First year would be non-performing.

This was a no action item.

Board of Director Comments. None

Adjourn: 4:24 p.m.

Approved by: _____
Steve Webster, President

Attest by: _____
Pat Cassady, Secretary