

**RESOLUTION NO. 789**

**A RESOLUTION APPROVING OF AN OREGON BUSINESS DEVELOPMENT FUND PROJECT PROPOSAL BY COMMERCIAL KNIFE, INC.**

WHEREAS, the Wilsonville City Council finds that the development proposed by Commercial Knife, Inc., would foster the economic growth and legislative policy as set forth in ORS 280.520 and 280.585; and

WHEREAS, the Wilsonville City Council finds that the project is in compliance with state-wide planning goals adopted by the Land Conservation and Development Commission pursuant to ORS Chapter 197; and

WHEREAS, the City of Wilsonville has found that the project complies with the local economic development strategy; and

WHEREAS, ORS 280.532 requires, before the approval of an Oregon Business Development Fund project by the State of Oregon, that the governing body of the City recommend the project; and

WHEREAS, the City Council finds that the completion of the project by Commercial Knife, Inc., would be in the best interest of the citizens of Wilsonville.

NOW, THEREFORE, IT IS HEREBY RESOLVED by the City Council of the City of Wilsonville that:

1. That the City of Wilsonville requests the Economic Development Commission and the State of Oregon to assist in the financing of the Commercial Knife, Inc., project within the City of Wilsonville, through the Oregon Business Development Fund secured by the improvements as provided by ORS 280.532.

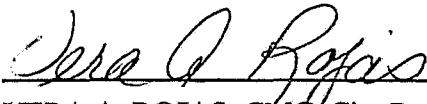
2. That the Mayor of the City of Wilsonville be authorized to sign and act for the City Council in any future action necessary by the City of Wilsonville to promote the project.

ADOPTED by the Wilsonville City Council at a regular meeting thereof this 1st day of October 1990, and filed with the Wilsonville City Recorder this same date.



\_\_\_\_\_  
JOHN M. LUDLOW, Mayor

ATTEST:



\_\_\_\_\_  
VERA A. ROJAS, CMC, City Recorder

SUMMARY of Votes:

Mayor Ludlow	<u>AYE</u>
Councilor Edwards	<u>AYE</u>
Councilor Chandler	<u>AYE</u>
Councilor Clarke	<u>AYE</u>
Councilor Dant	<u>AYE</u>

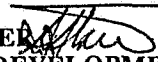
City of  
**WILSONVILLE**  
in OREGON

30000 SW Town Center Loop E • PO Box 220  
Wilsonville, OR 97070  
(503) 682-1011

COMMUNITY DEVELOPMENT DEPARTMENT  
MEMORANDUM

**DATE:** SEPTEMBER 26, 1990

**TO:** HONORABLE MAYOR AND CITY COUNCILORS

**FROM:** STEVE STARNER   
COMMUNITY DEVELOPMENT DIRECTOR

**RE:** COMMERCIAL KNIFE, INC. - OREGON BUSINESS  
DEVELOPMENT FUND

The Oregon Business Development Fund (OBDF) is a revolving loan fund administered by the Oregon Economic Development Department. Manufacturing, processing and tourism related projects are eligible. The OBDF provides long-term, fixed rate financing for land, buildings, equipment and machinery, and permanent working capital. Loans will be made only where there is a demonstrated creation of new jobs or retention of existing jobs.

Broad program guidelines include:

- \* Maximum loan is forty percent of eligible project costs;
- \* Refinance of existing debt is ineligible;
- \* Individual OBDF loans may not exceed \$250,000 per project;
- \* Outstanding OBDF money may not exceed \$1.5 million in any one county;
- \* The fund gives preference to projects which will create a minimum of one job for every \$15,000 of OBDF investment;
- \* Twenty-five percent of the available OBDF money is set aside for OBDF loans of \$50,000 or less;
- \* Fifteen percent of the available OBDF money is set aside for women and minority owned businesses;
- \* OBDF may not supplant other sources of economic development financing.

The OBDF program was originally funded with a \$2 million federal Economic Development Administration grant and matched with \$667,000 of funds provided by the State of Oregon. The OBDF has been recapitalized with lottery proceeds.

**Eligibility**

Loans will be made directly to private individuals, partnerships and corporations, incorporated cities, counties and local development corporations located in Oregon. The program places particular emphasis on enterprise zones, rural and lagging areas and on businesses with fewer than 50 employees.

Activities which are expressly ineligible include:

- \* Construction of office buildings, including corporate headquarters;
- \* Retail businesses, shopping centers, or food service facilities; and
- \* Refinancing of existing debt.

**Terms**

The maximum loan term is 25 years. Loan terms must be consistent with other loans obtained to finance the balance of the transaction. The loan term may not exceed the life of the assets financed. Private financing must be term financing. The OBDF will provide only permanent or "take-out" financing.

**Rate**

The interest rate will be 1 percentage point less than the prevailing interest rate on U.S. Treasury issues of a similar maturity.

**Collateral and Security**

- \* OBDF loans may be subordinated to other project financing.
- \* OBDF loans must be fully secured.
- \* Additional security may be required (e.g., life insurance, personal guarantees, and off-project assets).
- \* In most cases, an equity injection of at least ten percent will be required.

Specific to Commercial Knife, Inc., the attached information provides the details significant to the business expansion currently being contemplated.

**Recommendation:**

Approve Resolution No. CB-R-461-90 as presented.

ss:md

Attachment:

cc: Project file  
Inter-Office Communication file - CD

9775 S.W. Commerce Circle  
Wilsonville, OR 97070  
BUS: 503/682-5921  
FAX: 503/682-5628

September 14, 1990

Mr. Steve Starner  
Director Community Development  
Wilsonville, OR 97070


Dear Steve;

Enclosed please find a summary of our loan application with the Oregon Economic Development Fund, and a sample resolution for approval of the Wilsonville City Council endorsing this loan.

Thank you for your help in this matter, and if you have any questions relating to our business, I will be glad to answer them.

I would appreciate it if we could be ready for the council meeting at the first of the month as we discussed. Thanks again for your help.

Yours truly,

  
Bob Bayly  
President

## PROPOSAL

Commercial Knife makes and markets disposable chipper knife, the KEY KNIFE system, for the wood products industry. The KEY KNIFE replaces the conventional knife in a wood chipper. Once a chipper has been converted to the KEY KNIFE system, the customer typically uses \$1000 or more of KEY KNIVES per month.

The KEY KNIFE system, now installed in more than sixty chippers in the Northwest, has become well recognized as the most effective chipper knife system available, both on a chip quality and on a cost performance basis. As a result, Commercial Knife currently has a chipper conversion backorder file of over \$250,000. Filling these orders will increase the demand for KEY KNIVES from the current 4000 per month to an estimated 6500 per month, and exceeds our knife production capacity for both equipment and people. This backlog represents 30% of our planned installations for 1990.

Our fiscal 1990 business plan calls for capital spending of \$243,000 on equipment and working capital requirements of \$275,000 including inventory increase of \$120,000 to meet the production requirement of our planned new installations. Internally generated capital will be \$192,000 and we have commitments for purchase of new equity of \$100,000, to be spent on equipment, a bank commitment of \$100,000 to finance 50% of receivables in excess of \$100,000 provided we receive a loan from OBDF, leaving \$131,000 loan requirement from OBDF.

This loan would be instrumental in providing us the resources to continue to expand a profitable, growing Oregon company. Our new sales made possible by this loan will be bringing in revenues from primarily outside Oregon, with a net employment increase of 14 jobs for Oregonians in 1990 and 20 more in 1991.

Commercial Knife has assets of \$518,000 and a current net book value of \$269,000 all of which are pledged to secure the current OBDF loan of \$37,000. With the equity addition, book value will rise to \$370,000, and, even without including accounts receivable, total assets will be close to \$500,000. Even with a 50 percent asset recovery formula, the OBDF loans will be fully covered. The only change that would be required from the current OBDF loan would be the exclusion of accounts receivable from first position to second position to allow the bank receivables loan.

Participating Bank:

The attached proposal is a combined request for financing from Commercial Knife Equity holders, the Oregon Economic Development Fund, and the Participating Bank. This proposal has been structured to raise \$331,000, with Funds of \$100,000 from Commercial Knife equity sale, \$131,000 in OBDF funds, and a line of credit, secured by accounts receivable, from the participating bank of \$100,000.

The financing has been structured such that the bank funds will be used after the other two sources have been implemented, and only as a percentage of the increase in accounts receivable.

Bank Benefit:

Commercial Knife is a rapidly growing company with a patented product that produces a very high volume of repeat business with each client. To date, Commercial Knife has used internally generated and equity funds for product development and working capital, and has not developed or used bank financing. Commercial Knife is now seeking to develop a banking relationship to help provide stable financing for a long growth period, to handle daily banking activities and credit card functions, and to work with us in our international activities.

Commercial Knife benefit:

Commercial Knife is experiencing rapid growth and product acceptance on the West Coast, and is planning on developing additional marketing areas in Canada and Southern U.S. this year. Anticipated sales of \$4,000,000 by the end of 1991 will require additional working capital, plus the ability to work with foreign currencies. Developing a banking relationship now will prepare both Commercial Knife and the Bank to understand each others needs and provide us with the most economical means of financing our continued growth.

Implementation:

As part of the application for the OBDF funds, a letter of commitment such as the one attached, is required from the participating bank.

## PRODUCT:

Commercial Knife was formed in June of 1986 to develop and market a disposable chipper knife system for the wood processing industry. Over the next several years the KEY KNIFE was developed, patented, and through several major design improvements has been established as the most cost effective means of producing quality chips from whole logs and sawmill residuals.

The KEY KNIFE system is a retrofit knife system into any existing wood chipper. Currently the KEY KNIFE is installed in over 60 chippers with such clients as Louisiana-Pacific (4, one on order), Roseburg Lumber (5, one on order), Weldwood (4), Boise Cascade (3, two on order), Willamina Lumber (6), and Scott Paper (5).

Once the KEY KNIFE system has been installed in a chipper, Commercial Knife becomes the sole source of Knives for that chipper. A typical installation develops an average of \$1000.00 per month in repeat business in Key Knives and other spare parts. Along with the pleasure of consistent monthly repeat business comes the responsibility of always being able to provide the customer with product. If a chipper in a sawmill is not able to run for lack of knives, typically the whole mill will have to be shut down after ten to fifteen minutes.

Commercial Knife is currently growth constrained by the lack of capital to expand KEY KNIFE production and inventories as rapidly as we have orders for new KEY KNIFE system installations. Current KEY KNIFE production is 4000 Key Knives per month with a need to reach a capacity of 10,000 by the end of the next twelve months. The proposed financing plan would allow us to reach these targets.

## HISTORY:

Commercial Knife was started in June of 1986 to investigate the development of disposable knives for the wood products industry with financing of \$80,000 and a lot of sweat. The KEY KNIFE System basic design was conceived and patented in April of 1987, and has since been issued two U.S. patents and one foreign patent and has other U.S. and foreign patents pending.

The KEY KNIFE system went through three major design changes during the first three years of development, with each change adding significantly to its strength, utility, and operating characteristics. The last change was introduced November of 1988 and has subsequently proven out to be the most cost effective chipping system on the market.



Sales by Commercial Knife have been growing rapidly with the biggest increases coming with the introduction of latest version to the KEY KNIFE System. Currently sales are running at an annualized rate of \$1,500,000 with a targeted fiscal 1990 of \$2,100,000.

#### SALES HISTORY

	FISCAL YEAR ENDING JUNE 30,				SIX MONTHS ENDING	
	1987	1988	1989	1990	JUNE	1990
SALES	6,000	146,000	404,000	905,000	549,000	
PROFIT	-6,000	-83,000	-146,000	-82,000	24,000	

Losses during the product development stage were covered through the sales of additional equity in Commercial Knife and by loans from shareholders. Commercial Knife made its first profit in February of 1990 and has been profitable every month since.

#### EMPLOYMENT:

Commercial Knife was operated by Bob Bayly and Tom Carpenter initially. The first production employee was added in August of 1988. Employment has steadily grown since, with current and projected levels as follows:

	Current	Projected	
	June 1990	June 1991	June 1992
Management	4	8	13
Office	0	1	2
Production	8	15	27
Sub Cont.	3	5	9
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	15	29	49

#### COMPETITION:

The only other disposable chipper knife on the market is sold by Iggesund Turn Knife, a Swedish company, who began marketing in North America in late 1970's. Out of a market of 10,000 chippers, ITS has converted approximately 180 to their system and Commercial Knife 60 to the KEY KNIFE System. There is obviously plenty of room in the market place, with the real competition the standard system, however the KEY KNIFE System is demonstrating superiority over the Swedish

system, not only in the rapid increase in our sales in a limited market area, but also the KEY KNIFE has replaced the Iggesund system for three customers, and we have two additional conversions from the competition to the KEY KNIFE on order!

#### MARKETING:

The KEY KNIFE system is marketed on a direct contact basis, with Tom Carpenter having done most of the sales to date. Because of our limited capital, and limited production capabilities, we have confined our sales efforts to the Pacific Northwest as much as possible.

Recently, with Spotted Owl crises and timber supply questions for the west side of the Cascades, we have been turning our sales efforts to the east side of the Cascades, British Columbia, and to the SE U.S., to lessen our exposure to a possible slowdown in our current area.

The additional financing will allow us to expand our marketing in the Southern U.S. which is a much larger market than the Pacific Northwest.

The current slowdown in housing and pulp production has actually helped KEY KNIFE sales. An oversupply of chips (the KEY KNIFE product) has led to an emphasis on chip quality. This in turn has led producers with marginal chip quality to convert to the KEY KNIFE system as the most effective way to increase quality and to be able to continue to market their chips.

Increasing recognition of the KEY KNIFE system benefits of both quality and economy have led to the current back log of new system orders, our largest ever! Installation of these systems will exceed our knife production capacity if we have no additional investment in equipment, particularly a new Knife grinder for the sharpening process.

New Installation Backlog  
(Purchase Orders Received)

Customer	Conversion Value	Monthly Key Knives Required	Installation Start Up Date
Vaagen Bros.	10,600	80	8-27
Roseburg Lmb.	5,596	60	9-1
Geogia-Pac	28,641	320	9-1
Louisiana Pac	55,470	450	1-1-91
Northwoods	31,595	320	10-1-90
Northwoods	9,437	40	10-1-90
Boise Cas.	7,125	160	9-15
Boise Cas	11,547	100	8-20
Boise Cas	2,450	40	9-15
Int Paper	84,372	1000	10-1
Can. Pac.	41,000	600	10-30
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	287,833	3170	

FORECAST:

The 1990 business plan was put together to take advantage of the market opportunities available to Commercial Knife but at a controlled rate of growth so that the Company would remain profitable. Sales of new systems has not been and is not forecast to be, a limiting factor in growth. We have been and will continue to use our marketing efforts to penetrate markets strategically for Commercial Knife. To this end, the financial plan represents primarily an investment in production equipment, inventories, and other working capital requirements needed to increase KEY KNIFE production to match new installations and to have adequate inventories and capacity to insure that we can deliver knives and spare parts at all times without interruption.

We have received the offer from Vern Talcott and some of the current shareholders of Commercial Knife to purchase \$100,000 new shares of Commercial Knife, with the provision that the proceeds be used to purchase a new grinder and other

needed shop equipment to increase production. With these funds and those from ODBF and First Interstate Bank, we will be able to increase our capacity, expand our marketing territory not only to Eastern Oregon and Washington, British Columbia but also to begin to market in Southern U.S.

With the increased capitalization and subsequent increase in production, by December 1990, Commercial Knife's installed base will be large enough for a breakeven operation from repeat business alone. This, along with the wider geographical customer base, will allow us to proceed on a very firm and comfortable financial footing.

Employment is expected to grow on the management end with the addition of shop shift foremen for the second and third shifts, a secretary, and two additional sales and service people. Shop employment is expected to increase by seven individuals as we add one to day shift, two to swing shift, and a third shift of four.

We are currently using two subcontractors that exclusively make product for Commercial Knife, one the clamp component and the other all of our holders. With the increase in sales and repeat business, each of these will have to add at least one employee to keep up with our needs.

# KEY KNIFE®

## RETURNABLE CHIPPER KNIFE SYSTEM

For SAWMILL, VENEER and WHOLELOG CHIPPERS

### KEY REASONS to convert your chipper to the KEY KNIFE SYSTEM . . .

**Production:** Key Knives increase your operating time because they give more cuts per edge and require less time to change. Key Knives can produce longer chips while controlling chip thickness, increasing your production rate.

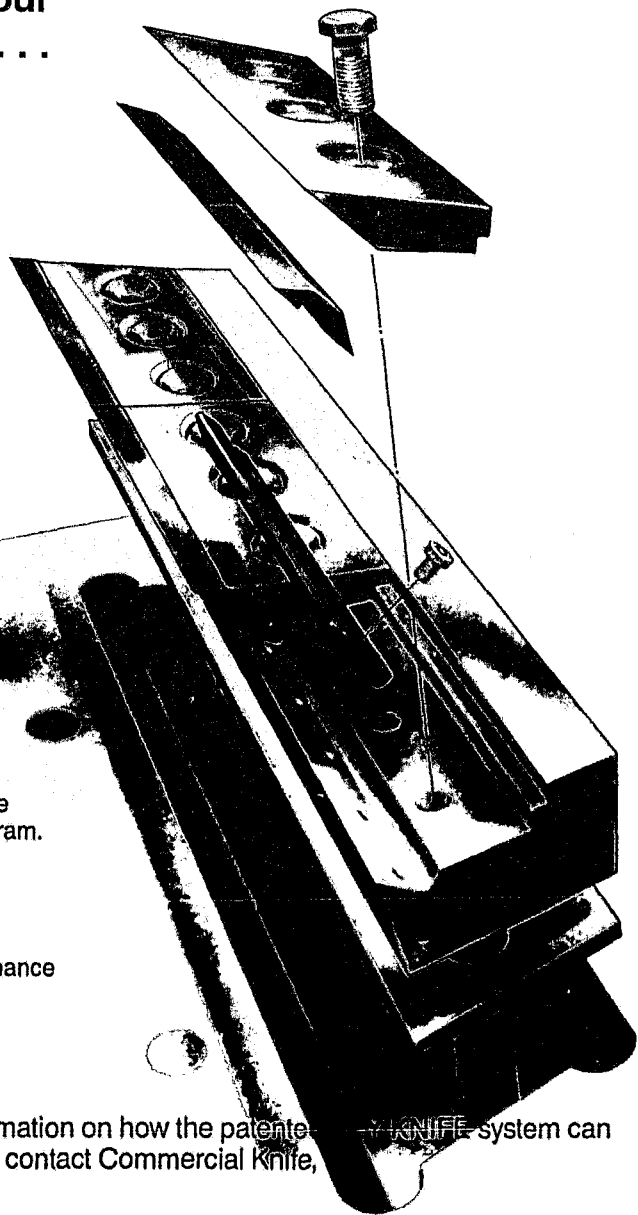
**Chip Quality:** Key Knives and their disposable counter knives improve chip quality because they are engineered to control chip thickness, maximize chip consistency and minimize fines percentage.

**Safety:** Small returnable Key Knives eliminate the use of molten lead for knife babbitting, minimize knife handling and increase safety in the work area.

**Economy:** Key Knife systems are more economical to operate because they eliminate all knife grinding operations, reduce costs for knife changing and handling. The disposable counter knives protect the holder from wear and foreign material, reducing your maintenance costs.

**Service:** Your chip quality and economy of operation are assured with Commercial Knife, Inc.'s professional service program. You receive regularly scheduled service calls from experienced process engineers providing consultation and replacement parts to maintain your system's efficiency.

**Warranty:** Key Knife systems are warranted for performance as well as for materials and workmanship.



**KEY KNIFE SYSTEM:** For more information on how the patented KEY KNIFE system can increase your chipping operation's performance, please contact Commercial Knife,

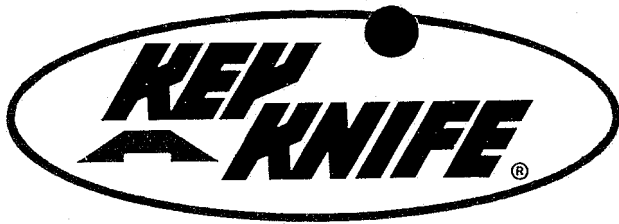
A Product of:

**COMMERCIAL KNIFE, INC.**

9775 S.W. COMMERCE CIRCLE C #5 • WILSONVILLE, OREGON 97070

Phone: (503) 682-5921

FAX: (503) 682-5628



"A NEW HEART FOR CHIPPERS THAT STRENGTHENS THEIR PERFORMANCE AND INCREASES YOUR PROFITS."

**HOLDER** Each holder is machined of structural steel, hardened and wear resistant coated for added durability. The holder is custom engineered specifically for each chipper and is securely bolted to the chipper disk pocket establishing a firm mounting base for the KEY KNIFE assembly.

**CONTROL PLATE** The control plate is a unique shim like device that determines the chip length being cut and controls the infeed force of the knives.

**COUNTER KNIFE** The patented disposable counter knife, constructed of tool steel hardened and wear resistant coated for long life, performs three vital functions:

1. Precisely positions the KEY KNIFE in place, assuring accurate knife point location for consistent chip quality.
2. Prolongs holder life by protecting the holder from wear, thereby enhancing economy of operation.
3. Improves chip quality by directing the chip flow through the knife pocket controlling chip thickness.

**KEY KNIFE** The double edged, patented KEY KNIFE achieves more clean cuts per edge because of the alloy used, the way the knife is manufactured and the patented way the knife is mounted. Economy of operation is further enhanced because KEY KNIVES are returnable to Commercial Knife for credit and refurbishing.

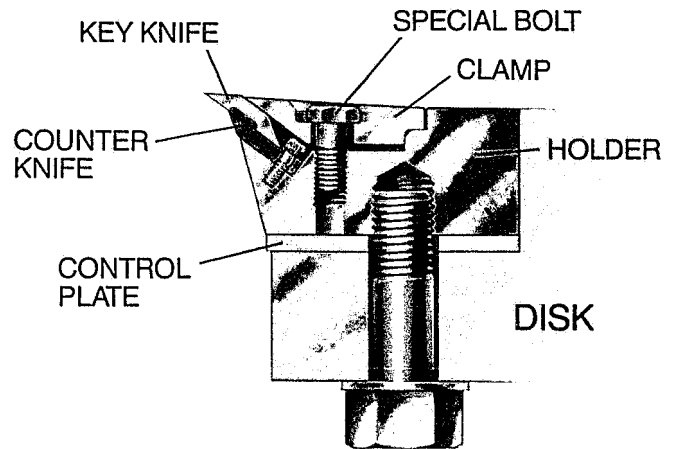
**CLAMP** The heavy duty clamp is made of tool steel, heat treated and sturdily bolted to the holder with 9/16" grade 8 bolts. The clamps are in individual segments across the knife pocket to secure knife holding, to expedite knife changing, and to minimize damage from inevitable crashes.

**INSTALLATION** Installation simply involves removing the old holder-clamp assembly and bolting the KEY KNIFE system into the knife pocket. This easy procedure under Commercial Knife's supervision takes approximately 30 minutes per pocket and does not require any modification to the chipper disk.

**SERVICE** COMMERCIAL KNIFE, INC. provides complete professional service from installation supervision and personnel training through routine visits for consultation and assurance of proper spare parts inventory. We also furnish clamp and holder repair providing you a worry free system.

**WARRANTY** ALL KEY KNIFE SYSTEMS ARE WARRANTED FOR PERFORMANCE AS WELL AS FOR MATERIALS AND WORKMANSHIP.

PLEASE CALL COMMERCIAL KNIFE, INC. FOR INFORMATION ON HOW THE KEY KNIFE SYSTEM CAN ASSIST YOUR CHIPPING OPERATION.



A Product of:

**COMMERCIAL KNIFE, INC.**  
9775 S.W. COMMERCE CIRCLE C #5 • WILSONVILLE, OREGON 97070

Phone: (503) 682-5921  
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