

REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO	CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY) 3000007592
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TO: CITY COUNCIL	FROM (ORIGINATING DEPARTMENT): Economic Development	DATE: 2/6/2015
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SUBJECT: San Diego Regional Revolving Loan Fund (SDRRLF) and Small Business Micro Revolving Loan Fund (SBMRLF) Working-Capital loans to JDZ INC. dba AleSmith Brewing Co.

PRIMARY CONTACT (NAME, PHONE): Rosa Elena Enriquez, 619-236-6323 MS 56D	SECONDARY CONTACT (NAME, PHONE): Libby Day, 619-533-6309 MS 56D
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COMPLETE FOR ACCOUNTING PURPOSES

FUND					
FUNCTIONAL AREA					
COST CENTER					
GENERAL LEDGER ACCT					
WBS OR INTERNAL ORDER					
CAPITAL PROJECT No.					
AMOUNT	\$0.00	\$0.00	0.00	0.00	0.00

FUND					
FUNCTIONAL AREA					
COST CENTER					
GENERAL LEDGER ACCT					
WBS OR INTERNAL ORDER					
CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00

COST SUMMARY (IF APPLICABLE): No impact to the General Fund. Funding sources: San Diego Regional Revolving Loan Fund (SDRRLF) and Small Business Micro Revolving Loan Fund (SBMRLF), Department of Commerce, Economic Development Administration (EDA) grants.

ROUTING AND APPROVALS

CONTRIBUTORS/REVIEWERS:	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
Environmental Analysis	ORIG DEPT.	Moreno, Lydia	02/11/2015
Liaison Office	CFO		
Financial Management	DEPUTY CHIEF	Graham, David	03/06/2015
Comptroller	COO		
	CITY ATTORNEY		
	COUNCIL PRESIDENTS OFFICE		

PREPARATION OF: RESOLUTIONS ORDINANCE(S) AGREEMENT(S) DEED(S)

STAFF RECOMMENDATIONS:
Information item only.

SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)

COUNCIL DISTRICT(S):	Six (6)
COMMUNITY AREA(S):	Mira Mesa
ENVIRONMENTAL IMPACT:	This activity will not result in a direct or reasonably foreseeable indirect physical change in the environment, and is not subject to CEQA pursuant to CEQA Guideline 15060(c)(2). The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(2), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required.
CITY CLERK INSTRUCTIONS:	

COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE: 2/6/2015

ORIGINATING DEPARTMENT: Economic Development

SUBJECT: San Diego Regional Revolving Loan Fund (SDRRLF) and Small Business Micro Revolving Loan Fund (SBMRLF) Working-Capital loans to JDZ INC. dba AleSmith Brewing Co.

COUNCIL DISTRICT(S): Six (6)

CONTACT/PHONE NUMBER: Rosa Elena Enriquez/619-236-6323 MS 56D

DESCRIPTIVE SUMMARY OF ITEM:

The City will execute two(2) working capital loans from the San Diego Regional Revolving Loan Fund (SDRRLF) and the Small Business Metro Revolving Loan Fund (SBMRLF) in the amounts of \$200,000 and \$50,000, respectively. Loan terms are 8-years with 8% fixed interest rate. The City's Revolving Loan Fund (RLF) program will partner with CDC Small Business Finance (CDC) to close the project's \$500,000 Working-Capital gap financing need. The primary lender's \$9.5M loan has been approved and is contingent upon the CDC & City's RLF financing.

STAFF RECOMMENDATION:

Information item only.

EXECUTIVE SUMMARY OF ITEM BACKGROUND: Revolving Loan Funds(RLFs) are utilized throughout the country as a source of financing which may not otherwise be available for small businesses. As funded loans are repaid, the funds become available for new loans to other businesses, thus creating a revolving loan fund. The funds are often utilized for working capital, property acquisition, inventory and purchase of machinery and equipment.

The City's RLF program was established by U.S. Dept of Commerce, Economic Development Administration (EDA) grants. The City provided local matching funds to establish the RLFs pursuant to the EDA grant terms.

Since mid 1990s, the City has helped a variety of businesses via its RLF program. In 2002 the San Diego Regional Revolving Loan Fund (SDRRLF) was established to provide "gap financing" loans with other community lenders acting as the primary financing partner with the City to assist small and mid-size businesses unable to meet the terms of traditional banks. The City partnered with the City of Chula Vista to establish the SDRRLF to make loans available to businesses located in both cities. In 2004 the Small Business Metro Revolving Loan Fund (SBMRLF) was transferred to the City from the Southeastern Development Corporation to consolidate the EDA programs. Repayments on the small business loans are returned to the loan pool and are available as RLF capital for future loans and expenses associated with program administration.

The RLF funded small and medium sized businesses include food & beverage companies, service-oriented businesses, manufacturers and cleantech companies among others.

To be eligible, applicants must submit an application and meet eligibility criteria approved by the EDA, including: located in the City of San Diego or Chula Vista; creating new employment opportunities; securing additional financing to complete project; proof of credit worthiness; and ability to repay the loan. The RLF program has approximately \$1,500,000 (combined RLF pool) available to lend to qualified businesses located in San Diego and/or Chula Vista. (See Fact Sheet – Attachment A)

AleSmith Brewing Co. (AleSmith) is expanding and relocating its corporate and food and beverage production operations in the Mira Mesa neighborhood. The current facility is operating at full capacity and cannot support an expansion. The new 105,636 s.f. warehouse facility at 9990 Empire Street will be converted to a production brewery, restaurant, tasting room and corporate headquarters. It will be the 3rd largest brewery in San Diego County and 8th largest in California. The food and beverage industry is one of the City's targeted base sectors, the manufacturing and innovation sector.

AleSmith has been operating since 1995, when it produced 300 barrels of beer/year for distribution in California. Peter Zien bought AleSmith in 2002 and is the current owner/operator. In 2012, AleSmith produced 8,280 barrels of beer/year for distribution in 10 states and Europe and employed 19 people. Current capacity is 15,000 barrels/year at its existing facility and will expand to a projected 25,000 barrels in year one at the new facility. Maximum capacity at the new facility will be 150,000 barrels/year. The company currently employs 26 staff and estimates a total of 48 new jobs will be created.

Total project cost is approximately \$12,000,000. AleSmith will inject approximately \$1.1M of its own capital plus additional financing, leaving a \$500,000 Working-Capital gap financing need. AleSmith has applied for a Working-Capital loan from the City of San Diego's RLF Program. The City's RLF Program will partner with CDC Small Business Finance to close the \$500,000 gap financing need. The primary lender's \$9.5M loan has been approved, contingent upon the CDC & City's RLF financing.

The SDRRLF and SBMRLF will respectively make a \$200,000 and a \$50,000, 8-year, 8% fixed interest rate Working-Capital loan. The loan will be secured by customary assets pertaining to the lending industry. The San Diego Revolving Loan Fund Loan Advisory Board, composed of lending professionals in the community has reviewed the application and staff's loan underwriting recommendations and supports the gap financing request. (See Promissory Notes – Attachment B)

AB 562 PUBLIC NOTICE SUMMARY: AleSmith's business includes manufacturing, selling, and distributing malt beverages. AleSmith's corporate headquarters are located at 9368 Cabot Drive, San Diego 92126, but relocating to 9990 Empire Street, San Diego 92126. The City will provide two Working-Capital loans to AleSmith in an amount not to exceed \$250,000 from SDRRLF and SBMRLF, with 8 year terms. The Loan Agreement will support the retention of all of AleSmith's manufacturing operations within the City, generate approximately \$50,000 tax revenue per year, contribute to the ongoing economic vitality of the City and provide an estimated 11 new jobs from this financing and a total of 48 jobs from all sources.

FISCAL CONSIDERATIONS:No impact to the General Fund. Funding sources: San Diego Regional Revolving Loan Fund (SDRRLF) and the Small Business Micro Revolving Loan Fund (SBMRLF) special funds. In addition, the proposed action satisfies the EDA's goals of promoting economic growth by supporting entrepreneurship, job retention and job creation.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE):This action is not subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTION (describe any changes made to the item from what was presented at committee):N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:By providing financial assistance for the company's expansion, the City's Economic Development Department is utilizing a local economic development incentive tool, the Business Finance Program, to help increase the number of middle-income jobs and enhancing the local economy. As a result of this loan, AleSmith will benefit from accessing Working-Capital while in the transition process. The City will support 2 Strategic Objectives of the 2014-2016 Economic Development Strategy: #1—to grow its economic base by attracting, retaining and expanding the City's economic base sector (manufacturing and innovation); and #2—to increase the amount of middle-income jobs, especially in the City's economic base sectors.

Moreno, Lydia
Originating Department

Graham, David
Deputy Chief/Chief Operating Officer



The City of San Diego

America's Finest City



BUSINESS FINANCE LOAN PROGRAMS

"Gap Financing" assistance available to expanding small and medium enterprises (SMEs) unable to meet the terms of traditional banks.

ELIGIBILITY

- Operate in the City of San Diego or City of Chula Vista
- Create new employment opportunities
- Secure additional financing to complete project
- Demonstrate credit worthiness and the ability to repay the loan

FINANCING

- Loan Size
 - \$25,000 to \$150,000 Small Business Micro Revolving Loan Fund
 - \$150,000 to \$500,000 San Diego Regional Revolving Loan Fund
- Loan Terms: Three to seven years
- Interest Rate: 8% floor

ELIGIBLE USES OF LOAN FUNDS

- Working capital and soft costs
- Acquisition of fixed machinery and equipment
- Supplement private financing for the acquisition of new or rehabilitated buildings

For detailed information, visit the City's Web site at
www.sandiego.gov/economic-development/business/financing

*"Without the City loan,
I don't think we would
have made it."*

*— Jennifer Case,
New Leaf Biofuel*

*"They are there to help
you fund and grow
your business."*

*— Jason Swinford,
Eat at Recess*

City of San Diego Economic Development Department-Business Finance Program

1200 Third Avenue, 14th Floor, San Diego, California 92101

P: (619) 236-6323 | F: (619) 533-3219 | E: renriquez@sandiego.gov | www.sandiego.gov/economic-development

**The City of San Diego
COMPTROLLER'S CERTIFICATE**

CERTIFICATE OF UNALLOTTED BALANCE

ORIGINATING CC 300007592
DEPT. NO. 1318

I HEREBY CERTIFY that the money required for the allotment of funds for the purpose set forth in the foregoing resolution is available in the Treasury, or is anticipated to come into the Treasury, and is otherwise unallotted.

Amount: _____

Purpose: _____

Date: _____ By: _____

COMPTROLLER'S DEPARTMENT

ACCOUNTING DATA									
Doc. Item	Fund	Funded Program	Internal Order	Functional Area	G/L Account	Business Area	Cost Center	WBS	Original Amount
TOTAL AMOUNT									

FUND OVERRIDE

CERTIFICATION OF UNENCUMBERED BALANCE

I HEREBY CERTIFY that the indebtedness and obligation to be incurred by the contract or agreement authorized by the hereto attached resolution, can be incurred without the violation of any of the provisions of the Charter of the City of San Diego; and I do hereby further certify, in conformity with the requirements of the Charter of the City of San Diego, that sufficient moneys have been appropriated for the purpose of said contract, that sufficient moneys to meet the obligations of said contract are actually in the Treasury, or are anticipated to come into the Treasury, to the credit of the appropriation from which the same are to be drawn, and that the said money now actually in the Treasury, together with the moneys anticipated to come into the Treasury, to the credit of said appropriation, are otherwise unencumbered.

Not to Exceed: \$250,000.00

Vendor: JDZ INC dba AleSmith Brewing Co

Purpose: Authorize a Loan from the San Diego Regional Revolving Loan Fund and from the Small Business Micro Revolving Loan Fund to JDZ Inc. dba AleSmith Brewing Co. in the amount of \$250,000

Date: February 13, 2015 By: Tere Capetillo

COMPTROLLER'S DEPARTMENT

ACCOUNTING DATA									
Doc. Item	Fund	Funded Program	Internal Order	Functional Area	G/L Account	Business Area	Cost Center	WBS	Original Amount
001	200352	Non-Program		OTHR-00000000-NS	512142	1316	1316000011		\$200,000.00
002	200702	Non-Program		OTHR-00000000-NS	512142	1316	1316000011		\$50,000.00
TOTAL AMOUNT									\$250,000.00

FUND OVERRIDE

CC 300007592

**CITY OF SAN DIEGO
SAN DIEGO REGIONAL REVOLVING LOAN FUND
NOTE**

SDRRLF Loan Number
01-15

\$200,000.00

San Diego, California

Date: February 17, 2015

FOR VALUE RECEIVED, the undersigned (“**Maker**”) promises to pay to the order of the CITY OF SAN DIEGO, a municipal corporation doing business as the San Diego Regional Revolving Loan Fund (“**Payee**”), at its office in the City of San Diego, State of California, or at the holder’s option at such other place as may be designated in writing from time to time by the holder, the principal amount of Two Hundred Thousand and No/100 Dollars (\$200,000.00), together with interest at the rate of eight percent (8.00%) per annum on the unpaid principal balance from the date of this Note, until paid in full.

1. **Loan Agreement.** This Note is issued pursuant to that certain Loan Agreement, dated of even date herewith, by and among Maker and Payee (including all annexes, exhibits and schedules thereto and as from time to time amended, restated, supplemented or otherwise modified, the “**Loan Agreement**”), and is entitled to the benefit and security of the Loan Agreement, the Security Agreement and all of the other Loan Documents referred to therein. All capitalized terms used but not otherwise defined herein have the meanings given to them in the Loan Agreement. The principal balance of the Loan and the date and amount of each payment made on account of the principal thereof, shall be recorded by Payee on its books; provided that the failure of Payee to make any such recordation shall not affect the obligations of Maker to make a payment when due of any amount owing under the Loan Agreement or this Note.

2. **Payment.** Maker shall pay this Note in accordance with the following payment schedules:

(a) Beginning on April 1, 2015 and continuing thereafter on the first day of each month until the entire balance of principal and interest is paid in full, Maker will make Six (6) consecutive monthly payments of interest only of One Thousand Three Hundred Thirty Three and 33/100 Dollars (\$1,333.33) each. Ninety (90) consecutive monthly principal and interest payments of Two Thousand Nine Hundred Sixty Two and 34/100 Dollars (\$3,702.93) each. On April 1, 2015 Maker shall also pay all interest accrued from the date of Initial Disbursement through March 31, 2015. All principal and accrued interest not yet paid, together with any other unpaid amounts under this Note, shall be due and owing on April 1, 2023 (the “**Maturity Date**”).

(b) Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ratio of the annual interest rate over the number of days in a year (366 during leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Unless otherwise agreed or required by applicable law, payments shall be applied first to accrued unpaid interest, then to any unpaid collection costs and late charges, and then to principal.

3. Prepayment Notice.

(a) Payment of any installment of principal or interest owing on this Note may be made prior to the maturity date thereof. However, Maker shall provide the holder with written notice of intent to prepay part or all of this loan at least three (3) weeks prior to the anticipated prepayment date.

4. **Security.** This Note is secured by, among other things, the grant of a security interest by Maker in certain collateral described in that certain Security Agreement of substantially even date herewith (the "**Security Agreement**") between Maker, as Debtor, and Payee, as Secured Party.

5. **Late Charge.** Time is of the essence hereof. If any periodic installment or any other sum due under this Note or the Security Agreement is not received within ten (10) days after its due date, the Maker agrees to pay, in addition to the amount of each such installment or other sum, a late payment charge of the greater of five percent (5%) of the amount of said installment or other sum or \$10.00, but in any event not exceeding any lawful maximum.

6. Default and Remedies.

(a) It shall be a default ("**Default**") under this Note and each of the other Loan Documents if (i) any principal, interest or other amount of money due under this Note is not paid in full within ten (10) days of the date when due, regardless of how such amount may have become due; (ii) any covenant, agreement, condition, representation or warranty herein, in the Security Agreement or in any other Loan Documents is not fully and timely performed, observed or kept; or (iii) there shall occur any default or event of default under the Security Agreement or any other Loan Document, subject to any applicable notice, grace or cure periods. Upon the occurrence of a Default, Payee shall have the rights to declare the unpaid principal balance and accrued but unpaid interest on this Note, and all other amounts due hereunder and under the other Loan Documents, at once due and payable (and upon such declaration, the same shall be at once due and payable), to foreclose any liens and security interests securing payment hereof and to exercise any of its other rights, powers and remedies under this Note, under the Security Agreement, under any other Loan Document, or at law or in equity.

(b) All of the rights, remedies, powers and privileges (together, "**Rights**") of Payee provided for in this Note, in the Security Agreement and in any other Loan Document are cumulative of each other and of any and all other Rights at law or in equity. The resort to any Right shall not prevent the concurrent or subsequent employment of any other appropriate Right. No single or partial exercise of any Right shall exhaust it, or preclude any other or further exercise thereof, and every Right may be exercised at any time and from time to time. No failure by Payee to exercise, nor delay in exercising any Right, including but not limited to the right to accelerate the maturity of this Note, shall be construed as a waiver of any Default or as a waiver of any Right.

(c) If any holder of this Note retains an attorney in connection with any Default or at maturity or to collect, enforce or defend this Note or any other Loan Document in any lawsuit or in any probate, reorganization, bankruptcy, arbitration or other proceeding, or if Maker sues any holder in connection with this Note or any other Loan Document and does not prevail, then Maker agrees to pay to each such holder, in addition to principal, interest and any other sums

owing to Payee hereunder and under the other Loan Documents, all costs and expenses incurred by such holder in trying to collect this Note or in any such suit or proceeding, including, without limitation, attorneys' fees and expenses, investigation costs and all court costs, whether or not suit is filed hereon, whether before or after the Maturity Date, or whether in connection with bankruptcy, insolvency or appeal, or whether collection is made against Maker or any guarantor or endorser or any other person primarily or secondarily liable hereunder.

7. General Provisions.

(a) Waivers.

i) Except as otherwise provided under the Loan Agreement executed in conjunction with this Note, Maker waives: presentment; demand for payment; notice of dishonor; notice of default or delinquency; notice of acceleration; notice of protest and nonpayment; notice of costs, expenses or losses and interest thereon; notice of late charges; right of marshaling; right of appraisal; right of redemption; and diligence by the holder in taking any action to collect any sums owing under this Note or in proceeding against any of the rights or interests in or to properties securing payment of this Note. Maker waives, to the extent allowed by law, the benefit of any statute of limitations with respect to any action to enforce or otherwise related to the Note. The holder hereof shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by such holder and then only to the extent specifically set forth in writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event. No delay or omission of the holder hereof to exercise any right, whether before or after a default hereunder, shall impair any such right or shall be construed to be a waiver of any right or default, and the acceptance at any time by the holder hereof of any past-due amounts shall not be deemed to be a waiver of the right to require prompt payment when due of any other amounts then or thereafter due and payable.

ii) Maker waives to the full extent permitted by applicable law the benefit of any laws or rules of court now or hereafter in effect relating to exemption, appraisal or stay of execution. Maker also hereby waives and releases to the full extent permitted by applicable law all benefit that might accrue to it by virtue of any present or future laws exempting any property securing this Note, real or personal, or any part of the proceeds arising from any sale of any such property, from attachment, levy or sale under execution, or providing for any stay of execution, exemption from civil process, or extension of time for payment; and Maker agrees that any real estate that may be levied upon pursuant to a judgment obtained by virtue hereof, or any writ of execution issued thereon, may be sold upon any such writ, in whole or in part, in any order desired by the holder hereof.

(b) Remedies Cumulative. The remedies of the holder hereof as provided herein, or at law or in equity, shall be cumulative and concurrent, and may be pursued singly, successively, or together at the sole discretion of the holder hereof, and may be exercised as often as occasion therefor may occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

(c) Commercial Purposes of Loan. Maker warrants that the Loan is being made solely to acquire or carry on a business or commercial enterprise, and Maker is a business or commercial organization. Maker further warrants that all of the proceeds of this Note shall be

used for commercial purposes and not for personal, family or household purposes and Maker stipulates that the Loan shall be construed for all purposes as a commercial loan.

(d) **Usury Savings.** It is the intention of the parties hereto to comply with the applicable usury laws; accordingly, it is agreed that, notwithstanding any provision to the contrary in this Note or any Security Agreement, in no event shall this Note or any Security Agreement require the payment or permit the collection of interest in excess of the maximum amount permitted by applicable law. If any such excess interest is contracted for, charged or received under this Note or any Security Agreement, or if all of the principal balance shall be prepaid, so that under any of such circumstances the amount of interest contracted for, charged or received under this Note or any Security Agreement on the principal balance shall exceed the maximum amount of interest permitted by applicable law, then in such event (a) the provisions of this paragraph shall govern and control, (b) neither Maker nor any other person or entity now or hereafter liable for the payment hereof shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by applicable law, (c) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal balance or refunded to Maker, at the option of the Payee, and (d) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed under applicable law as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received under this Note or any Security Agreement which are made for the purpose of determining whether such rate exceeds the maximum lawful contract rate, shall be made, to the extent permitted by applicable law, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the indebtedness evidenced hereby, all interest at any time contracted for, charged or received from Maker or otherwise by Payee in connection with such indebtedness; provided, however, that if any applicable state law is amended or the law of the United States of America preempts any applicable state law, so that it becomes lawful for the Payee to receive a greater interest per annum rate than is presently allowed, the Maker agrees that, on the effective date of such amendment or preemption, as the case may be, the lawful maximum hereunder shall be increased to the maximum interest per annum rate allowed by the amended state law or the law of the United States of America.

(e) **WAIVER OF JURY TRIAL. THE MAKER HEREBY UNCONDITIONALLY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS NOTE, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS BETWEEN MAKER AND PAYEE RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN MAKER AND PAYEE. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT (INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS.) THIS WAIVER IS IRREVOCABLE MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS NOTE, ANY RELATED**

DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS TRANSACTION OR ANY RELATED TRANSACTION. IN THE EVENT OF LITIGATION, THIS NOTE MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(f) **Amendment.** No variation or modification of this Note, or any waiver of any of its provisions or conditions, shall be valid unless in writing and signed by an authorized representative of Maker and Payee. Any such waiver, consent, modification or change shall be effective only in the specific instance and for the specific purpose given.

(g) **Severability.** Any provision in this Note or any Security Agreement which is in conflict with any statute, law or applicable rule shall be deemed omitted, modified or altered to conform thereto.

(h) **Governing Law.** This Note has been delivered to and accepted by Payee in San Diego, California. This Note shall be governed and construed in accordance with and pursuant to the internal laws of the State of California.

THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

[The Remainder of this Page Intentionally Left Blank.]

IN WITNESS WHEREOF, Maker, intending to be legally bound hereby, has duly executed this Note as of the day and year first above written.

JDZ, Inc. a California corporation dba AleSmith
Brewing Company

By: _____ 

Name: Peter Hess Zien

Title: President

**CITY OF SAN DIEGO
SAN DIEGO MICRO REVOLVING LOAN FUND
NOTE**

San Diego Micro Loan Number
01-15

\$50,000.00

San Diego, California

Date: February 17, 2015

FOR VALUE RECEIVED, the undersigned (“**Maker**”) promises to pay to the order of the CITY OF SAN DIEGO, a municipal corporation doing business as the San Diego Micro Revolving Loan Fund (“**Payee**”), at its office in the City of San Diego, State of California, or at the holder’s option at such other place as may be designated in writing from time to time by the holder, the principal amount of Fifty Thousand and No/100 Dollars (\$50,000.00), together with interest at the rate of eight percent (8.00%) per annum on the unpaid principal balance from the date of this Note, until paid in full.

1. **Loan Agreement.** This Note is issued pursuant to that certain Loan Agreement, dated of even date herewith, by and among Maker and Payee (including all annexes, exhibits and schedules thereto and as from time to time amended, restated, supplemented or otherwise modified, the “**Loan Agreement**”), and is entitled to the benefit and security of the Loan Agreement, the Security Agreement and all of the other Loan Documents referred to therein. All capitalized terms used but not otherwise defined herein have the meanings given to them in the Loan Agreement. The principal balance of the Loan and the date and amount of each payment made on account of the principal thereof, shall be recorded by Payee on its books; provided that the failure of Payee to make any such recordation shall not affect the obligations of Maker to make a payment when due of any amount owing under the Loan Agreement or this Note.

2. **Payment.** Maker shall pay this Note in accordance with the following payment schedules:

(a) Beginning on April 1, 2015 and continuing thereafter on the first day of each month until the entire balance of principal and interest is paid in full, Maker will make Six (6) consecutive monthly payments of interest only of Three Hundred Thirty Three and 33/100 Dollars (\$333.33) each. Ninety (90) consecutive monthly principal and interest payments of Seven Hundred Forty and 59/100 Dollars (\$740.59) each. On April 1, 2015 Maker shall also pay all interest accrued from the date of Initial Disbursement through March 31, 2015. All principal and accrued interest not yet paid, together with any other unpaid amounts under this Note, shall be due and owing on April 1, 2023 (the “**Maturity Date**”).

(b) Interest on this Note is computed on a 365/365 simple interest basis; that is, by applying the ratio of the annual interest rate over the number of days in a year (366 during leap years), multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Unless otherwise agreed or required by applicable law, payments shall be applied first to accrued unpaid interest, then to any unpaid collection costs and late charges, and then to principal.

3. **Prepayment Notice.**

(a) Payment of any installment of principal or interest owing on this Note may be made prior to the maturity date thereof. However, Maker shall provide the holder with written notice of intent to prepay part or all of this loan at least three (3) weeks prior to the anticipated prepayment date.

4. **Security.** This Note is secured by, among other things, the grant of a security interest by Maker in certain collateral described in that certain Security Agreement of substantially even date herewith (the "**Security Agreement**") between Maker, as Debtor, and Payee, as Secured Party.

5. **Late Charge.** Time is of the essence hereof. If any periodic installment or any other sum due under this Note or the Security Agreement is not received within ten (10) days after its due date, the Maker agrees to pay, in addition to the amount of each such installment or other sum, a late payment charge of the greater of five percent (5%) of the amount of said installment or other sum or \$10.00, but in any event not exceeding any lawful maximum.

6. **Default and Remedies.**

(a) It shall be a default ("**Default**") under this Note and each of the other Loan Documents if (i) any principal, interest or other amount of money due under this Note is not paid in full within ten (10) days of the date when due, regardless of how such amount may have become due; (ii) any covenant, agreement, condition, representation or warranty herein, in the Security Agreement or in any other Loan Documents is not fully and timely performed, observed or kept; or (iii) there shall occur any default or event of default under the Security Agreement or any other Loan Document, subject to any applicable notice, grace or cure periods. Upon the occurrence of a Default, Payee shall have the rights to declare the unpaid principal balance and accrued but unpaid interest on this Note, and all other amounts due hereunder and under the other Loan Documents, at once due and payable (and upon such declaration, the same shall be at once due and payable), to foreclose any liens and security interests securing payment hereof and to exercise any of its other rights, powers and remedies under this Note, under the Security Agreement, under any other Loan Document, or at law or in equity.

(b) All of the rights, remedies, powers and privileges (together, "**Rights**") of Payee provided for in this Note, in the Security Agreement and in any other Loan Document are cumulative of each other and of any and all other Rights at law or in equity. The resort to any Right shall not prevent the concurrent or subsequent employment of any other appropriate Right. No single or partial exercise of any Right shall exhaust it, or preclude any other or further exercise thereof, and every Right may be exercised at any time and from time to time. No failure by Payee to exercise, nor delay in exercising any Right, including but not limited to the right to accelerate the maturity of this Note, shall be construed as a waiver of any Default or as a waiver of any Right.

(c) If any holder of this Note retains an attorney in connection with any Default or at maturity or to collect, enforce or defend this Note or any other Loan Document in any lawsuit or in any probate, reorganization, bankruptcy, arbitration or other proceeding, or if Maker sues any holder in connection with this Note or any other Loan Document and does not prevail, then Maker agrees to pay to each such holder, in addition to principal, interest and any other sums

owing to Payee hereunder and under the other Loan Documents, all costs and expenses incurred by such holder in trying to collect this Note or in any such suit or proceeding, including, without limitation, attorneys' fees and expenses, investigation costs and all court costs, whether or not suit is filed hereon, whether before or after the Maturity Date, or whether in connection with bankruptcy, insolvency or appeal, or whether collection is made against Maker or any guarantor or endorser or any other person primarily or secondarily liable hereunder.

7. General Provisions.

(a) Waivers.

i) Except as otherwise provided under the Loan Agreement executed in conjunction with this Note, Maker waives: presentment; demand for payment; notice of dishonor; notice of default or delinquency; notice of acceleration; notice of protest and nonpayment; notice of costs, expenses or losses and interest thereon; notice of late charges; right of marshaling; right of appraisal; right of redemption; and diligence by the holder in taking any action to collect any sums owing under this Note or in proceeding against any of the rights or interests in or to properties securing payment of this Note. Maker waives, to the extent allowed by law, the benefit of any statute of limitations with respect to any action to enforce or otherwise related to the Note. The holder hereof shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by such holder and then only to the extent specifically set forth in writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event. No delay or omission of the holder hereof to exercise any right, whether before or after a default hereunder, shall impair any such right or shall be construed to be a waiver of any right or default, and the acceptance at any time by the holder hereof of any past-due amounts shall not be deemed to be a waiver of the right to require prompt payment when due of any other amounts then or thereafter due and payable.

ii) Maker waives to the full extent permitted by applicable law the benefit of any laws or rules of court now or hereafter in effect relating to exemption, appraisement or stay of execution. Maker also hereby waives and releases to the full extent permitted by applicable law all benefit that might accrue to it by virtue of any present or future laws exempting any property securing this Note, real or personal, or any part of the proceeds arising from any sale of any such property, from attachment, levy or sale under execution, or providing for any stay of execution, exemption from civil process, or extension of time for payment; and Maker agrees that any real estate that may be levied upon pursuant to a judgment obtained by virtue hereof, or any writ of execution issued thereon, may be sold upon any such writ, in whole or in part, in any order desired by the holder hereof.

(b) Remedies Cumulative. The remedies of the holder hereof as provided herein, or at law or in equity, shall be cumulative and concurrent, and may be pursued singly, successively, or together at the sole discretion of the holder hereof, and may be exercised as often as occasion therefor may occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

(c) Commercial Purposes of Loan. Maker warrants that the Loan is being made solely to acquire or carry on a business or commercial enterprise, and Maker is a business or commercial organization. Maker further warrants that all of the proceeds of this Note shall be

used for commercial purposes and not for personal, family or household purposes and Maker stipulates that the Loan shall be construed for all purposes as a commercial loan.

(d) **Usury Savings.** It is the intention of the parties hereto to comply with the applicable usury laws; accordingly, it is agreed that, notwithstanding any provision to the contrary in this Note or any Security Agreement, in no event shall this Note or any Security Agreement require the payment or permit the collection of interest in excess of the maximum amount permitted by applicable law. If any such excess interest is contracted for, charged or received under this Note or any Security Agreement, or if all of the principal balance shall be prepaid, so that under any of such circumstances the amount of interest contracted for, charged or received under this Note or any Security Agreement on the principal balance shall exceed the maximum amount of interest permitted by applicable law, then in such event (a) the provisions of this paragraph shall govern and control, (b) neither Maker nor any other person or entity now or hereafter liable for the payment hereof shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by applicable law, (c) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal balance or refunded to Maker, at the option of the Payee, and (d) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed under applicable law as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received under this Note or any Security Agreement which are made for the purpose of determining whether such rate exceeds the maximum lawful contract rate, shall be made, to the extent permitted by applicable law, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the indebtedness evidenced hereby, all interest at any time contracted for, charged or received from Maker or otherwise by Payee in connection with such indebtedness; provided, however, that if any applicable state law is amended or the law of the United States of America preempts any applicable state law, so that it becomes lawful for the Payee to receive a greater interest per annum rate than is presently allowed, the Maker agrees that, on the effective date of such amendment or preemption, as the case may be, the lawful maximum hereunder shall be increased to the maximum interest per annum rate allowed by the amended state law or the law of the United States of America.

(e) WAIVER OF JURY TRIAL. THE MAKER HEREBY UNCONDITIONALLY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS NOTE, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS BETWEEN MAKER AND PAYEE RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN MAKER AND PAYEE. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT (INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS.) THIS WAIVER IS IRREVOCABLE MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS NOTE, ANY RELATED

DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS TRANSACTION OR ANY RELATED TRANSACTION. IN THE EVENT OF LITIGATION, THIS NOTE MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(f) **Amendment.** No variation or modification of this Note, or any waiver of any of its provisions or conditions, shall be valid unless in writing and signed by an authorized representative of Maker and Payee. Any such waiver, consent, modification or change shall be effective only in the specific instance and for the specific purpose given.

(g) **Severability.** Any provision in this Note or any Security Agreement which is in conflict with any statute, law or applicable rule shall be deemed omitted, modified or altered to conform thereto.

(h) **Governing Law.** This Note has been delivered to and accepted by Payee in San Diego, California. This Note shall be governed and construed in accordance with and pursuant to the internal laws of the State of California.

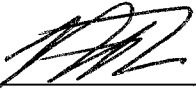
THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

[The Remainder of this Page Intentionally Left Blank.]

IN WITNESS WHEREOF, Maker, intending to be legally bound hereby, has duly executed this Note as of the day and year first above written.

JDZ, Inc. a California corporation dba AleSmith
Brewing Company

By: _____ 

Name: Peter Hess Zien

Title: President