

 <p style="text-align: center;">Council Communication Office of the City Manager</p>	Date:	July 15, 2013
	Agenda Item No.	34
	Roll Call No.	<u>13-1107</u>
	Communication No.	<u>13-364</u>
	Submitted by:	Matthew A. Anderson, Assistant City Manager

AGENDA HEADING:

Resolution approving a settlement and release to the economic development loan agreement between the City of Des Moines and the Secured Note Holders of Palisade Systems, Inc., and approving the Resolution to Terminate the Iowa Economic Development Authority (IEDA) Iowa Values Funds Contract No. 10-IVF-052.

SYNOPSIS:

In February 2013, the City was notified that Palisades Systems had entered into a voluntary surrender of collateral agreement with its Secured Note Holders in partial satisfaction of \$3.3 million indebtedness due from Palisade Systems, Inc. The surrender of collateral allowed the Secured Note Holders to move forward in the sale of the intellectual property consisting of patents, trademarks, copyrights, accounts, inventory, equipment, and intangible assets. In June 2013, the City was notified that Palisades was to be sold to Absolute Software Corp., a security software company located in Vancouver, Canada. The new purchaser has relocated the company’s remaining six (6) employees out of the City and its future plans are unknown.

Included in the assets to be purchased is the collateral (office furniture) pledged to the City’s \$100,000 economic development loan to Palisades Systems, Inc. City staff confirmed with the original local office furniture vendor that a commercial sale of the City’s pledged collateral would result in proceeds of about \$20,000 to \$30,000 less sale expenses. Office of Economic Development staff is recommending that the City approve the settlement and release for a payment of \$25,000 and the termination of the IEDA Contract #10-IVF-052.

FISCAL IMPACT:

Amount: \$25,000 represents the market value of the depreciated collateral pledged to the \$100,000 economic development loan in 2010 by Palisades Systems. The remaining balance is deemed an uncollectable debt against Palisades Systems, Inc.

Funding Source: Funded in 2010 from the Economic Development Enterprise Account. Settlement proceeds to be deposited to the Economic Development Enterprise Account.

ADDITIONAL INFORMATION:

Palisade Systems, Inc. was founded in 1996 by Doug Jacobson of Iowa State University to address the growing needs of organizations to filter inappropriate website material from students. Over the last 16 years the company has evolved to produce Data Loss Prevention (DLP) solutions to the small and

medium business markets and is a nationally known brand. DLP technology prevents the loss of sensitive information such as patient health records, financially sensitive information, credit card numbers, student records for educational organizations, and virtually any sensitive and confidential information that an enterprise deems private. The software detects and blocks this sensitive data from leaving data networks that would result in regulatory breach as required by the Health Insurance Portability and Accountability Act (HIPAA), Health Information Technology for Economic and Clinical Health Act (HITECH), and Sarbanes Oxley.

In November 2009, Palisades Systems, Inc. relocated to Des Moines from Ames, IA. The move was to enable the company to expand into Managed Services for its products. The company subleased space in Capital Square, initially 6,000 square feet, with options to expand to 15,000 square feet over three (3) years. Palisade Systems, Inc. initially moved 17 employees to Capital Square. At that time, the Company had contemplated continued development of the company's intellectual property requiring expanded job opportunities consisting principally of software and systems engineers and other technical experts. To fund the expansion, in November 2009 and March of 2010 Palisade completed a \$2.5 million and a \$5 million debt/equity placement, respectively.

On May 24, 2010, by Roll Call No. 10-0818, City Council approved the documents for an Iowa Department of Economic Development \$65,000 forgivable loan Contract #10-IVF-052, and a City economic development loan of \$100,000 to Palisade Systems, Inc. The financial assistance package supported a \$6 million business expansion project that was to create 46 new jobs over three (3) years at an average wage of \$23.66/hr plus benefits in downtown Des Moines. Palisade Systems employment grew by seven (7) positions peaking at 24 positions in 2011.

In 2012, the City's Office of Economic Development (OED) staff was made aware that Palisades Systems, Inc. was in discussions regarding the sale of the company. In the fall of 2012, OED staff was introduced to representatives of a Florida software company that was negotiating the purchase of Palisades Systems assets. Over the next several months, OED Staff negotiated an amendment to the development agreement with the Florida Company that would have keep the then existing employment and future growth in Des Moines, but this purchase never closed and the Secured Note Holders subsequently entered into an asset sales agreement with Absolute Software Corp., Vancouver, Canada.

PREVIOUS COUNCIL ACTION(S):

Date: May 24, 2010

Roll Call Number: [10-0818](#)

Action: [Development](#) Agreement with Palisade System, Inc. for business expansion and job creation at Capital Square, 400 Locust Street. ([Council Communication No. 10-275](#)) Moved by Hensley to adopt. Motion Carried 7-0.

Date: December 7, 2009

Roll Call Number: [09-2195](#)

Action: [Authorizing](#) submission of an application for financial assistance to the State of Iowa Department of Economic Development and approving preliminary terms of an economic development

loan of \$100,000 to Palisade Systems, Inc. ([Council Communication No. 09-855](#)) Moved by Vlassis to adopt. Motion Carried 7-0.

BOARD/COMMISSION ACTION(S): NONE

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

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