

Iowa Ends Energy Firm's \$2.5M Grant

RYAN J. FOLEY, Associated Press

IOWA CITY, Iowa (AP) — Iowa's economic development agency has cancelled a \$2.5 million grant awarded to a startup firm trying to develop a groundbreaking technology to make fertilizer from corn cobs, citing a failure to disclose prior litigation involving its chairman, officials said Tuesday.

The Iowa Economic Development Authority said SynGest, Inc. had defaulted on its state contract by failing to note in its application that Chairman Serge Randhava had been accused in a federal lawsuit in Illinois of racketeering and fraud related to his role in a previous research project involving fertilizer.

In a letter to SynGest dated May 1 and released to The Associated Press on Tuesday, Director Debbi Durham told the company that its Iowa Power Fund grant was being terminated immediately "due to the nature of this default and the impossibility of cure."

SynGest CEO Jack Oswald said Tuesday the decision "appears to be a knee-jerk reaction." He said the firm would try to convince the state to reverse course and allow the grant funding to continue, saying the project holds great promise for Iowa's economy.

"We feel pretty confident that calmer heads will prevail," he said. "Ultimately, with appropriate reflection and analysis, we expect this to go forward."

The cancellation comes months after SynGest raised \$3.5 million in private funding to qualify for the state grant. The company, which is based in San Francisco, had not yet received any grant money.

The AP reported on the lawsuit against Randhava last month, after state officials launched an internal investigation based on a tip from a constituent. Randhava declined comment Tuesday.

A federal jury in Illinois in 2008 found Randhava was part of a civil racketeering and fraud conspiracy in connection with the misuse of about \$500,000 awarded by a research organization, the Gas Technology Institute, to develop a fertilizer technology in a venture with his company, Unitel Technologies. A judge vacated the verdict in 2009 when the case was settled. Randhava denied wrongdoing and blamed others for any fraud.

The lawsuit was filed against Randhava months after an investor group of which he was part filed a lawsuit accusing the institute of racketeering for allegedly mismanaging the development of a cement technology he helped create. A jury ruled in his group's favor in that case in 2008 and awarded \$15 million in damages. A judge later threw out that verdict and ordered a retrial before both cases were

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settled. Randhava has said the settlement ended with him receiving money.

SynGest's grant application, signed by Oswald, said no in response to questions asking whether there were "any judgment or court actions completed or pending" against company employees or officers, and whether any had "been accused or convicted of any crime or wrongdoing."

Durham's letter noted the lawsuit against Randhava was still pending when Oswald signed the application. It said the company violated contract provisions by not making "full disclosure" on the application and making a "material misrepresentation."

Oswald has said he was unaware of the lawsuit against Randhava at the time and did not intend to withhold any information. He also said Randhava plays a minor role in the company's operations and would not have controlled its state funding.

Oswald said Tuesday the lawsuit had nothing to do with SynGest and "there was no misrepresentation."

In applying for the grant in 2009, SynGest proposed building a \$105 million plant in Menlo that would be the first in the world to make fertilizer from biomass materials such as corn cobs. The company said its project would create hundreds of jobs, purchase millions of dollars of biomass from local farmers, and pioneer a new fertilizer that would be more environmentally friendly and less expensive than traditional sources made from natural gas.

But that plan relied counted on a \$50 million grant from the U.S. Department of Energy, which did not come through. SynGest executives negotiated a \$2.5 million grant contract with state officials, signed in December 2010, that required them to raise \$3.5 million in private equity and specified the money would be used for early design and engineering work.

After SynGest did not meet a December deadline to raise the private funding, state officials in January gave it 30 days to come up with the funds or lose the state grant, spokeswoman Tina Hoffman said.

Hoffman said the company soon provided proof of \$3.5 million deposited in a bank account that was invested by an engineering firm. SynGest executives said that would allow engineering and design work to soon get started, but Randhava's prior lawsuit came to light after AP reported on the sluggish start of several Iowa Power Fund projects.

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