SUGAR

How a Beverly Hills businessman sweet-talked a Missouri town into sinking

LOW

millions into his empty dream. By Susan Berfield Photographs by Ty Cacek

It was a bright July morning in 2010, early enough in the day for those gathered to be pressed and creased and hopeful. The former governor of Missouri, Bob Holden, stood on the muddy edge of acres of prairie just beyond the city of Moberly. With him were the mayor, local economic development officials, residents, and a short, chubby, well-dressed executive from Beverly Hills named Bruce Cole. His company, Mamtek U.S., would soon break ground on what he promised would be a state-of-the-art facility to manufacture its Sweet-O brand of sucralose, an artificial sweetener. Moberly had been so enthralled by Cole that within a mere three weeks after he first came to town, officials gave initial approval for $39 million worth of municipal bonds for Mamtek. Cole told Moberly the plant would open in about six months, operate 24 hours a day, and eventually employ 612 people.

The first employee was Olivia Lindsey. She was hired that November as Mamtek's human resources director. Lindsey had been working as a consultant in St. Louis, "laying people off since 2002," she says. "It was heart-wrenching. I couldn't do it anymore." She moved to Moberly, and her grown kids and their families all bought homes there and opened a restaurant. "This seemed like an incredible opportunity," Lindsey says. "Cole seemed like he had millions and millions of dollars. And the government was talking the same way."

Lindsey hired a dozen executives and engineers, who then hired their own consultants. They rented office space, developed sales brochures, bought computers, centrifuges, stainless steel tanks, a sugar silo, and pipes of all sizes. Two structures emerged on the 33-acre site.

Cole had lots of grand plans. But reality caught up with him. To the growing frustration of Moberly officials and residents, he kept pushing back the completion date of the facility. In August 2011 it came time for Mamtek to make its first payment on the principal of the bond, a sum of $3.2 million. Cole's company didn't have the money. It never did, as it turned out.

Lindsey and several of those she had recruited were let go in September. By the end of October, Mamtek was broke and the city had defaulted on the bonds. The unfinished plant sits in the optimistically named Moberly Area Industrial Park. Instead of a global company and economic opportunity, Moberly now has laid-off workers, unpaid vendors, angry bondholders, and a battered credit rating. Lawsuits have been filed against Mamtek and Cole personally. Millions of dollars invested in the company are gone, some of it in questionable payments. Cole is back in Beverly Hills, and it is now evident that he was in dire financial straits when he persuaded Moberly to invest in his dream. "Bruce ran us right off the cliff," says Jeff Howard, who was Mamtek's general manager. "He never said to slow down. Mamtek was so exciting, and then it just went to hell."

Although Cole would not comment, interviews with former Mamtek executives, consultants, and city officials, as well as a review of the bond offering, legal filings, and other records made public, tell the story of Mamtek's collapse. It's a tale of economic desperation, the lure of Chinese wealth, and, most of all, people's need to believe. "We all thought this was going to be awesome. We thought everything had been checked out," says Lindsey. "Shame on us."

Sucralose is a stripped-down, chemically altered sugar molecule. The process requires replacing three of sugar's hydroxyl groups with chlorine atoms. The result is an artificial flavor 600 times as sweet as the natural one. On Mamtek's website, the patented formula for its Sweet-O brand of sucralose was helpfully described as its "exclusive Ozark Process."

Cole speaks at Mamtek's July 2010 ceremonial groundbreaking

Bruce Cole told a beguiling story about Sweet-O. In 2006 he started his sucralose manufacturing company in China's Fujian province and called it Mamtek International. ("Mamtek" comes from the Hebrew word for "sweetener.") Demand was increasing worldwide for artificial sweeteners, which can have high profit margins. Tate & Lyle, the British company that invented sucralose and sells it as Splenda, was having trouble keeping up production, and the last of its original patents was expiring. Cole's partners developed a formula and technology to produce the sweetener more efficiently than Tate & Lyle, they said. They were ready to expand the manufacturing facility but decided to build in the U.S. instead. A "Made in the USA" product would fetch a premium in the global marketplace, and Cole claimed to have customers for almost every kilogram of sucralose Mamtek could produce in its first three years. All he needed was financing.

In his search for U.S. municipalities that might provide it, Cole landed in Bismarck, N.D., in the spring of 2010 with two associates to pitch their project. "They really didn't show up with a lot of material," says Russell Staiger, president of the Bismarck-Mandan Development Assn. "We never saw any information about their financials. It was all just talk. They didn't even bring any sucralose. We have an expression up here: a rancher who's all hat and no cattle."

Cole's reception in Moberly that April

"THIS SEEMED LIKE AN INCREDIBLE OPPORTUNITY," SAYS MAMTEK'S FIRST EMPLOYEE. "COLE SEEMED LIKE HE HAD MILLIONS AND MILLIONS OF DOLLARS. AND THE GOVERNMENT WAS TALKING THE SAME WAY"

PREVIOUS SPREAD: SUGAR: GARY OMBLER/GETTY IMAGES; THIS PAGE: BENJAMIN HERROLD/MMI(2) was warmer. Moberly has a population of 14,000 and an annual budget of about $7 million, with as many pawn shops and payday loan operators as restaurants. It's not bereft: There's a community college, a Wal-Mart distribution center, and a state prison. But like many small communities, it has greater ambitions than prospects. When Cole insisted on a speedy deal, officials were happy to oblige.

Cole estimated construction of the plant would cost about $40 million. He had investors who would contribute $7 million, though he himself would put in no money at all. In addition to the $39 million worth of bonds, the state of Missouri's Economic Development Dept.—which first brought what it called Project Sugar to the attention of Moberly and other cities—offered a $17.6 million package of incentives.

Over the next several weeks an appraisal firm valued Mamtek's intellectual property at $50 million. Mamtek's own law firm provided blueprints of the manufacturing facility in Fujian as well as photos taken by one of its attorneys and reviewed a translated copy of a purchase contract from a Chinese pharmaceutical company. Standard & Poor's gave the proposed bond offering an A- rating. The bonds, approved by the Moberly Industrial Development Authority in mid-May and to be repaid by revenue from Mamtek, were underwritten by a Memphis investment bank.

Curiously absent in this flurry of paperwork was substantial financial information about Mamtek's Chinese operations. What Cole offered instead was a forecast of future riches based on Mamtek's technological ingenuity. "Any time someone tells me I've got an investment from China that's built on 'groundbreaking technology,' I become very suspicious," says Benjamin Shobert, the founder of Rubicon Strategy Group, a firm that works in emerging markets. "That's not what China is known for right now. Most of China's investment is driven by natural resources."

Bruce Cole, now 64, is not a charismatic figure, but he is a determined one. In video testimonials for the project—shot sometime last winter and still on YouTube as of early January—he is sleepy-eyed, has drooping jowls, and speaks in a low monotone. He sits in Moberly's economic development office surrounded by gold-plated shovels commemorating other successes. "The city's commitment has been very joyous. ... In Moberly, you have a population that has confidence in their government and allows their government to take risks and make bold decisions. That is very unusual in my experience."

By the time Cole arrived in Moberly, he had built a résumé of executive titles, several at Chinese companies. It looks impressive, but his quantifiable accomplishments are few.

He studied philosophy at the University of California at Los Angeles and earned a degree from the University of San Francisco School of Law in 1975. There he met his wife, Nanette Hudson. Cole spent most of the 1980s at a firm he co-founded in the Bay Area. Next he worked as in-house counsel at financial advisory, corporate restructuring, and insurance companies.

In 1998 he and his wife bought the $2.4 million, 8,000-square-foot home in Beverly Hills they live in now. They joined Temple Emanuel, the preeminent synagogue in town, and became significant donors. (Cole is on its board of directors.) Nanette serves on the city's planning commission.

According to business associates, Cole began to use his Beverly Hills address, and the connections it afforded, in other ways. He met one future Mamtek partner, an engineer and entrepreneur named David Ho, because their sons were on the tennis team together. Soon he was involved in a tangle of technology, engineering, and financial firms, some public, some private. By outward appearances he was doing well. He took frequent first-class trips to China, filled his Beverly Hills home with Chinese antiques, hosted big Chinese New Year's parties, and gave the impression that he had an elaborate network of Chinese contacts.

Between 2004 and 2009 he embarked on a few ambitious China-related projects that required municipal funding and never amounted to much, including a would-be Chinese trade center in a Laredo (Tex.) mall and an office to promote Chinese tourism in Beverly Hills. During this time he also founded Mamtek. He joined Ho and Ho's partner, a chemical engineer, who were trying to make sucralose for their green tea extract company in China. After Cole proposed they become a global supplier of sucralose, he sold two other Beverly Hills friends on the idea, took them on as investors, named himself chairman and chief executive officer, and registered Mamtek International in Hong Kong.

In the fall of 2009 a member of Temple Emanuel introduced Cole to Reena Gordon. She had earned an undergraduate degree from Harvard University, an MBA from Wharton School, and seemed like the perfect person to help Cole establish Mamtek in

Moberly has 14,000 residents and an annual budget of $7 million. The city put together a deal for $39 million worth of bonds to land Mamtek

Olivia Lindsey moved to Moberly to supervise hiring for Mamtek. She brought on only 14 people before being let go

the U.S. She signed on as project manager and eventually became the company's chief operating officer. Gordon and a consultant began looking for a suitable location. They turned to an acquaintance, the former governor of Missouri, Bob Holden, who introduced Cole and his company to officials in nearly a dozen Midwestern states.

By July 2010, Mamtek had its site and its money. Among Cole's first expenditures was hiring an old client, Lindsay Leveen, to supervise the engineering of the plant. Leveen, who kept his job as an executive at Genentech in San Francisco while helping run Mamtek, sent three consultants to study Mamtek's plant in the city of Wuyishan in Fujian province. They returned with the sucralose "cookbook" and hundreds of photos. Gordon, the COO, helped Leveen debrief them; she then left the company in October. Leveen, still holding a full-time position in California, eventually took on the COO job, too. Leveen and Gordon declined to comment for this story.

Cole, meanwhile, was already talking about the future. That October, in Moberly as construction began on the plant, Cole said Mamtek was in negotiations with a Chinese pharmaceutical company, Zhucheng Haotian Pharmaceutical, or ZCHT, about a joint venture in Moberly. "Mr. Zhu, the president, has made the decision to come here," Cole said in a radio interview. "The rapidity with which Moberly could respond has been noted with incredulousness by companies that could be moving here."

With Cole on that visit to Moberly was a woman from Beverly Hills who had come to check on her investment. Alissa Roston, who knew Cole from Temple Emanuel, had put $3 million into Mamtek International, and would eventually contribute $1 million more. She began acting as treasurer and pitching in wherever she could. In November she hired Olivia Lindsey to fill in the executive ranks and prepare to hire and train plant workers. It wasn't long before Lindsey became concerned about Mamtek's disorganization.

"Three or four weeks in, I was like, 'Oh, my God.' No one had any experience running a company," she says. By this point, Roston had returned to Beverly Hills; Lindsay Leveen was in San Francisco. Cole, a fleeting presence, wouldn't reappear in Moberly until December. "There was no plan, no construction budget, no operating budget, no estimates, no forecasts. Nothing. It was so chaotic," Lindsey says. "Alissa was trying. But Bruce was disengaged and was flying back and forth to China. Lindsay would call us during his carpool to Genentech. You cannot start a business on a cell phone." Roston declined to comment.

The scramble to get the factory up and running continued through the winter, past Cole's promised completion date. The first interest payment on the bond, $1.2 million, was due in February. Mamtek, which had no revenue, had a hard time coming up with the money and just made the deadline. Cole hadn't been able to secure other investments, but he never seemed worried.

Although Cole didn't mention it in his official pitch, he was counting on raising millions through the U.S. EB-5 visa program. The government will grant temporary residence visas to anyone who invests $500,000 in a U.S. company; if the funding creates 10 jobs in a certain amount of time, the investor gets a green card. The U.S. companies have to work through government-approved regional centers. Mamtek intended to set up its own center to attract Chinese investors for the sucralose plant and other Moberly projects. Mamtek applied for expedited approval in January, which Cole hoped would come in April. The government denied the request.

Cole told Lindsey and other Mamtek employees that the company's EB-5 application would be approved later through the regular process. In the meantime, he said, he was close to raising a great deal of money from other investors. No one had any reason not to believe him.

Spring arrived in Moberly. Cole continued to travel from Beverly Hills to China, dropping by the Mamtek office every now and then. He would give some encouragement, make promises, and leave. Moberly was waiting for delivery on those promises. Lindsey received almost 5,000 applications for 120 jobs at the sucralose plant. "It was overwhelming," she says. Her worries about the company's lack of financial discipline were mounting. Lindsey says her efforts to hire a controller had been rebuffed early on; eventually, Cole brought in a consultant to serve as chief financial officer, but he only worked part-time. Roston was bailing out Mamtek check by check until her total investment reached $4 million. Even so, by May Mamtek had fallen behind on some routine payments. Frustrated, Lindsey asked a friend to audit Mamtek's finances. "In two days she realized we had a problem," says Lindsey. "She told us that we were almost out of money. We didn't have a clue."

Roston, who stepped back from her day-to-day responsibilities at the company in June, seemed just as surprised. The drawdowns on the bond money were handled by Cole with scant oversight by anyone. "They were pissed I brought someone in," says Lindsey. "But no one was watching the money." Lindsey cut costs and even looked into selling equipment. Cole told everyone to stay focused on their work: The money was coming.

To make matters worse, the three-person sales team had begun meeting with potential corporate customers and learned that the price of sucralose was dropping. While Tate & Lyle, the premium producer, could get as much as $250 a kilogram, new Chinese and Indian manufacturers were offering it for about $90. Cole had expected to get $170. Mamtek had to revise that to about $120, according to Joe Clayton II, head of sales and marketing. Mamtek could still earn a profit. But the business model was no longer as enticing as Cole had suggested.

Another reality check came in the form of Jeff Howard. Lindsey had recruited Howard that spring as general manager; he left a job at health-care company Covidien and a home in Connecticut. "It all looked so good on paper," he says. When he got to Moberly, though, he was baffled the plant design wasn't finished, even though construction was under way. "There was no explanation," he says. It wasn't until mid-August that Howard and his colleagues had completed enough engineering to produce a budget: Mamtek would need another $45 million to finish the plant.

ALTHOUGH IT WASN'T IN HIS OFFICIAL PITCH, COLE WAS PLANNING ON RAISING MILLIONS THROUGH A FEDERAL PROGRAM THAT GRANTS VISAS TO ANYONE WHO INVESTS AT LEAST $500,000 IN A U.S. COMPANY

But on Aug. 1, Mamtek could not come up with the $3.2 million bond payment. Cole asked for more time, promising he could raise $20 million to $30 million. One employee recalls hearing about a Chinese investor, another about a Korean. Lindsey says Cole hoped to get those millions from an EB-5 project in Philadelphia that had stalled. (Mamtek's own EB-5 approval came in mid-August, though before then the company did attract a total of $2 million from four Chinese investors.)

"The whole time, Bruce was telling us the money's coming in. It didn't come in, it didn't come in, it didn't come in," says Lindsey. "I'm still believing he'll pull it off," she says about that tense summer. "And then it collapsed." On Sept. 2, Lindsey was laid off, writing to a friend: "I need to file for unemployment!! Mamtek has no money and is releasing people starting today. Got any openings??"

Soon after, Cole, Roston, and David Ho, who constituted the board of directors for Mamtek U.S., brought in a Los Angeles liquidation firm to deal with its creditors. Incredibly, Cole formed another company, American Sucralose Manufacturing, to try to save Mamtek. The city of Moberly gave him a deadline of Oct. 26 to raise enough money to make the bond payment and keep the project going. People who spoke with him during this time say he sounded optimistic. He gave Moberly $45,000 early that month and then walked away from his commitment to the city, according to officials there.

Wuyishan city lies at the base of Mount Wuyi, a Unesco World Heritage site and popular destination for Chinese tourists. There are scenic foothills and rivers and plantations that grow the renowned Da Hong Pao (Big Red Robe) tea. In an industrial zone on the southern edge of the city sits the Wanho food and beverage plant, once owned by David Ho and his local partner, Wan Zhenghao. The factory is idle, the workers' dormitories empty. It was here, in the summer of 2007, that Mamtek International rented space to research the production of sucralose, says a person closely involved in the operations, who would not speak on the record. Mamtek created a small facility, almost like a test lab, and sometime in 2008 began building a larger factory capable of producing commercial quantities.

In 2009, as construction was completed, the local government revoked Mamtek's license. A senior official at the Wuyishan City External Trade Co-operation Bureau says of that decision: "We don't dictate what industries can or cannot set up here. But we don't allow anything that pollutes the environment and affects the tourism industry." He wasn't more specific, but sucralose production can generate a caustic, salty stream of waste that if dumped untreated into rivers can kill fish and cause serious environmental problems.

This blow to the business in Wuyishan appears to be what led Cole to establish Mamtek in the U.S. Once Cole secured the bond money from Moberly, he returned to Wuyishan during the summer of 2010. He paid Wan $500,000 for the patents and intellectual property associated with the plant. Jeff Howard, Mamtek's general manager, would later deem them nearly worthless. "That technology would really only be of value where environmental concerns are not so significant," says someone else at the company.

Other aspects of Cole's Chinese business dealings turned out to be exaggerated, too. Cole had said Mamtek had many customers, but only one contract to purchase its U.S.-made sucralose was part of the bond offering. Repeated attempts to contact the headquarters of that Chinese company were unsuccessful. ZCHT, the pharmaceutical company whose boss, according to Cole, was going to move to Moberly, did not have plans to relocate. "Mamtek approached us, and we had some talks," says Felix Sun, the sales manager. "But nothing came of it."

The Securities and Exchange Commission's Los Angeles bureau has been looking into Mamtek since March. The Missouri attorney general's office and state lawmakers have also begun investigations. The trustee for the bond, UMB Bank, is suing Mamtek for the bond money in federal court and trying to force the company into a bankruptcy supervised by a Missouri lawyer instead of the California liquidation firm. The immigration agency in Beijing that pitched Mamtek to its clients, each out $500,000 and an EB-5 visa, says it may sue Cole. Alissa Roston has sued Cole for $75,000 in unpaid personal loans. (In court filings, he has denied the claims.)

The money poured into Mamtek may not be recovered; most has already been spent. About $16 million worth of equipment was purchased, according to UMB. It wasn't all delivered, though, and the bank estimates that about $9 million worth is sitting on the site. Construction and road work came to about $8.5 million. A dozen or so engineering consultants were paid a total of $1.7 million.

Questions persist about payments totaling $6.1 million to Ramwell Industrial. In the bond offering, Ramwell is described as a Hong Kong company that held Mamtek's intellectual property. Yet the invoices contain less information than an electric bill. The Hong Kong address for Ramwell Industrial is the same as that of at least two other companies Cole has been connected to, as the *Columbia Daily Tribune* first reported in October. And Ramwell Industrial was never registered to do business in Hong Kong. There was once a Ramwell Industrial Ltd. It was a California firm registered by Cole in 2001; its business license has since been suspended.

Cole has publicly addressed Mamtek's collapse once, in a rambling e-mail sent to the *Tribune*, claiming Ramwell Industrial was a "to-be-formed company" that had no links to the defunct Ramwell Industrial. He also wrote that Ramwell had a contract with Mamtek to expand the Chinese facility and that the "contract was transferred and assigned to Mamtek." He concluded: "All the funds represented by the [Ramwell] invoices were devoted to the Mamtek, Moberly project."

It has since become clear that when Cole was pitching his project, in the spring of 2010, he was facing tremendous personal financial problems. Ely Malkin, a Mamtek International investor who was not involved in its U.S. venture, had taken him to court over an unpaid loan of $250,000. American Express had filed a lien against him for an unpaid bill of nearly $135,000 on his by-invitation-only Centurion Card. And he had defaulted on the $3.7 million mortgage on his home in Beverly Hills. Two weeks after the first bond payment to Ramwell in July 2010, and just three days before the bank was supposed to sell the property, Cole somehow saved his home. Cole settled up with Malkin in March 2011. The status of his American Express debt is not publicly available.

Officials in Missouri, quick to welcome Mamtek, are now loath to take responsibility for its demise. Moberly trusted the expertise of Mamtek's own counsel as well as the appraisal firm and the bond underwriters, Morgan Keegan (which settled a fraud case this past summer related to subprime mortgage securities and is now up for sale). Morgan Keegan said its due diligence focused on the city's finances and that it relied on Moberly and the state's Economic Development Dept. to verify Mamtek's financial condition. Economic Development was wary of placing too many demands on companies interested in doing business in the state. That sends the message that they are "obviously not welcome in Missouri," said David Kerr, the now-retired director of the department, during hearings held by the Missouri House of Representatives in November.

Moberly officials are inclined to think Mamtek came to such an inglorious end because others didn't believe enough. "Maybe Bruce didn't have control over it being stopped. I got the sense his hands were tied," says Mayor Bob Riley. "I think it was a heartfelt disappointment for him." S&P downgraded Moberly's credit rating from A to B on Sept. 22, three notches below that of Detroit. Now, Moberly is trying to find another company to take over Project Sugar.

"The most likely suitors would be people already in the business," says Howard. "It will take $45 million to complete the facility as designed and at least $10 million in operating capital. You have to come to an agreement with the bondholders and creditors. And you don't even know if $90 a kilogram is a stable price."

The Mamtek facility has been fenced off but is easily observed from Route 63. Across the way, Moberly's drive-in is closed for the season. The Heartland Banquet Center is quiet. "There was always a lot of talk about what this could be," says Olivia Lindsey. "Was it pure fantasy? I don't know." —*With Daryl Loo*

Jeff Howard relocated from Connecticut to join Mamtek; within four months he was out of work