

A. S.J. McCullagh Capital (X134)

August 18, 2011

General Project Plan

Grantee: S.J. McCullagh, Inc. (“McCullagh” or the “Company”)

ESD Investment: A grant of up to \$40,000 to be used for a portion of the acquisition and installation of new machinery and equipment.

Project Location: 245 Swan Street, Buffalo, Erie County

ESD Incentive Offer Accepted: November 12, 2010

Project Completion: July 2011 (Phase I)

Number of Employees at Facility:

Initial employment at time of ESD Incentive Offer	42
Current employment level:	42
Minimum employment through January 1, 2016:	42

Grantee Contact: Mr. Dennis T. Gorski, Director of Projects
245 Swan Street
Buffalo, NY 14204
Phone: (716) 856-3473 Fax: (716) 856-3486

Project Team:

Origination	Will Welisevich
Project Management	Jean Bly
Affirmative Action	Helen Daniels
Environmental	Soo Kang

Regional Council: The Western New York Regional Council has been made aware of this item.

Project Description:

Background

McCullagh was established in 1867 when Samuel McCullagh and his brother founded the New York Tea Company. Today, the Company specializes in the manufacture and distribution of roasted coffees and related products by importing, roasting, grinding, degassing, packaging and wholesaling 15 blends of Arabica and Robusta coffee at different grinds, grades and roasts. The privately-held Company also markets teas, hot chocolate, flavoring syrups, creamers, sugars, sweeteners, juice products, water purification systems, and paper products. The Company recently introduced a new line of sustainable coffee,

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Ecoverde, which is 100% Rainforest Alliance Certified, with packaging that is 100% compostable and carbon neutral.

McCullagh supplies beverage service and related processing equipment throughout the United States and Canada through its 18,000-square-foot Buffalo headquarters and distribution centers in Toronto, Canada, and Salt Lake City, UT. Primary customers include restaurants, hotels, hospitals, convenience store chains and private label customers including Walmart, Sam's Club and NOCO. Major competitors include U.S. Foods (Lincoln, NE), Sysco Incorporated (Houston, TX), and Boston's Best (Rochester, NY).

In mid-2010, McCullagh advised ESD that it needed to improve its manufacturing and packing efficiencies to remain competitive, retain existing customers, and accommodate future growth. One of the Company's primary customers, Wal-Mart, was seeking cost reductions from its vendors, including McCullagh. The Company provides Wal-Mart with products for employee break rooms. To retain Wal-Mart and other large customer accounts, the Company would require a significant capital expenditure to upgrade older, inefficient equipment; however McCullagh did not have sufficient financial resources to complete the capital investment. The Company accepted ESD's capital grant offer in November 2010 resulting in the Company's decision to complete a two-phase project. Phase I will involve the acquisition and installation of machinery and equipment; Phase II will involve additional machinery and equipment, building construction/renovation and employee training. As a result of this project, 42 jobs will be retained and 2 new jobs will be created. Without ESD assistance, McCullagh would not have completed the capital investment allowing it to remain competitive and retain major customers, placing the Buffalo facility at risk.

The Company will complete a majority of the machinery and equipment acquisition immediately and is expected to complete the building construction/renovation in July 2012. ESD is providing two separate grants; \$40,000 for Phase I and \$60,000 for Phase II. This request is for a \$40,000 grant to assist with Phase I. Phase II of the project will be brought before ESD Directors upon completion of the building construction/renovation.

The Project

The \$283,000 Phase I project involves the acquisition and installation of new packing, filling, and conveyor machinery and equipment, which was completed in July 2011. As a result of the project, the Company has retained 42 jobs. Phase II of the project, scheduled for completion in July 2012, is anticipated to include a 6,600-square-foot expansion to the Company's existing facility and an additional investment of machinery and equipment.

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Financing Uses	Amount	Financing Sources	Amount	Percent
Machinery & Equipment	\$283,000	ESD Grant	\$40,000	14%
		First Niagara Bank-Loan *	107,287	38%
		Erie County Industrial Development Agency Regional Development Corporation-Loan **	107,300	38%
		Company Equity	28,413	10%
Total Project Costs	\$283,000	Total Project Financing	\$283,000	100%

*5.56%/5yrs/1st lien on Matrix Elete SJ twin vertical fill-seal

**4%/5yrs/2nd lien on Company assets

Financial Terms and Conditions:

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$40,000 capital grant \$400 and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will be obligated to advise ESD of a material adverse change in its financial condition prior to disbursement.
3. The Company will be required to contribute at least 10% of the total project cost in the form of equity contributed after the Company's written acceptance of ESD's offer. Equity is defined as cash injected into the project by the Company or by investors, and should be auditable through Company financial statements or Company accounts, if so requested by ESD. Equity cannot be borrowed money secured by the assets in the project.
4. Prior to disbursement, the Company must employ at least the number of Full-time Permanent Employees set forth as the Baseline Employment in the table below. A Full-time Permanent Employee shall mean (a) a full-time, permanent, private-sector employee on the Grantee's payroll, who has worked at the Project Location for a minimum of thirty-five hours per week for not less than four consecutive weeks and who is entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Grantee's payroll, who have worked at the Project Location for a combined minimum of thirty-five hours per week for not less than four consecutive weeks and who are entitled to receive the usual and customary fringe benefits extended by Grantee to other employees with comparable rank and duties.

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5. Up to \$40,000 will be disbursed to the Grantee upon machinery and equipment project costs totaling \$232,000 and documentation of the employment of at least 42 Full-time Permanent Employees at the Project Location, providing the Grantee is otherwise in compliance with program requirements and assuming that all project approvals have been completed and funds are available. Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenditures must be incurred on or after November 12, 2010, to be considered eligible project costs. The disbursement must be requested by April 1, 2014.
6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$40,000, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Company and the State of New York. In no event shall the total amount of any assistance to be so reallocated exceed the total amount of assistance approved by the Directors.
7. In consideration for the making of the Grant, Grantee will achieve the Employment Goals set forth in Column B of the table below. If the Full-time Permanent Employee Count for the year prior to the reporting date set forth in Column A of the table below is less than eighty-five percent (85%) of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESD, Grantee shall be obligated to repay to ESD a portion of each disbursement of the Grant, as follows:

The Recapture Amount is based on the time that has lapsed between when the Grant funds were disbursed and when the Employment Shortfall occurred. The Recapture Amount shall be calculated by aggregating the Recapture Amount for each disbursement of the Grant, which in each instance shall be equal to:

- (i) 100% of the disbursed amount if the Employment Shortfall occurred in the calendar year that the disbursement was made, or in the first full calendar year after the disbursement was made;
- (ii) 80% of the disbursed amount if the Employment Shortfall occurred in the second full calendar year after the disbursement was made;
- (iii) 60% of the disbursed amount if the Employment Shortfall occurred in the third full calendar year after the disbursement was made;
- (iv) 40% of the disbursed amount if the Employment Shortfall occurred in the fourth full calendar year after the disbursement was made;
- (v) 20% of the disbursed amount if the Employment Shortfall occurred in the fifth full calendar year after the disbursement was made.

The Grantee's number of Full-time Permanent Employees shall be deemed to be the

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greater of the number as of the last payroll date in the month of December for such year or the average employment for the 12 month period computed by quarter.

Baseline Employment	42
A	B
Reporting Date	Employment Goals
February 1, 2012	42
February 1, 2013	42
February 1, 2014	42
February 1, 2015	42
February 1, 2016	42

Environmental Review:

ESD staff has determined that the approval of funding to be used for a portion of the cost of acquisition and installation of new machinery and equipment constitutes a Type II action as defined by the New York State Environmental Quality Review Act (“SEQRA”) and the implementing regulations of the New York State Department of Environmental Conservation, and therefore no environmental review is required in connection with the authorization. The future building expansion is subject to a review pursuant to SEQRA, however, the project is in the planning stages and no specific project plan is currently proposed. At such time as any future expansion plan is proposed, it will be subject to environmental review under SEQRA.

Statutory Basis – Empire State Economic Development Fund:

1. The project would promote the economic health of New York State by facilitating the creation or retention of jobs or would increase activity within a municipality or region of the State or would enhance or help to maintain the economic viability of family farms. As a result of this project, McCullagh will eliminate overtime, reduce overhead and labor costs, allowing it to remain competitive and retain its employment level of 42 through January 1, 2016.
2. The project would be unlikely to take place in New York State without the requested assistance. Without ESD assistance, the Company did not have sufficient financial resources to complete the capital investment allowing it to remain competitive. If the capital investment was not made, McCullagh would have likely lost primary customers, playing the Buffalo facility at risk.

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3. The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.
Evaluated over a seven-year period, project fiscal benefits to New York State government are expected to be \$1,437,845, which exceed the cost to the State.
4. The requirements of Section 10(g) of the Act are satisfied.
No residential relocation is required because there are no families or individuals residing on the site.