

FOR CONSIDERATION

December 16, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Liverpool (Onondaga County) – Revonate Manufacturing Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

General Project Plan

I. Project Summary

Grantee: Revonate Manufacturing, LLC (“Revonate” or the “Company”)

ESD* Investment: A grant of up to \$125,000 to be used for a portion of the cost of machinery and equipment acquisition.

* The New York State Urban Development Corporation doing business as the Empire State Development Corporation (“ESD” or the “Corporation”)

Project Locations: 4697 Crossroads Park Drive, Liverpool, Onondaga County
7645 Henry Clay Boulevard, Clay, Onondaga County

Proposed Project: Purchase of machinery and equipment, leasehold improvements and training associated with the creation of a new technology company.

ESD Incentive Offer Accepted: March 4, 2008

Project Completion: June 2008

Number of Employees at Project Locations:
 Initial employment: 0
 Current employment level: 216
 Minimum employment on January 1, 2012: 50

Grantee Contact: James R. Petrie, Senior Vice President
 Seneca Data Distributors, Inc.
 7401 Round Pond Road
 North Syracuse, NY 13212
 Phone: 315-433-1160 ext.3102
 Fax: 315-433-0945

Anticipated
 Appropriation
 Source: Empire State Economic Development Fund (“EDF”)

ESD Project No.: W023

Project Team: Origination James Fayle
 Project Management Jessica Hughes
 Finance Ross Freeman
 Affirmative Action Helen Daniels
 Environmental Soo Kang

II. Project Cost and Financing Sources

| <u>Financing Uses</u> | <u>Amount</u> |
|------------------------|---------------|
| Machinery & Equipment | \$262,715 |
| Leasehold Improvements | 79,450 |
| Training Costs | 60,000 |
| Recruitment Costs | <u>65,000</u> |

Total Project Costs \$467,165

| <u>Financing Sources</u> | <u>Amount</u> | <u>Percent</u> |
|--------------------------|------------------|----------------|
| ESD – Grant | \$125,000 | 27% |
| Company Equity | <u>342,165</u> | <u>73%</u> |
| Total Project Financing | <u>\$467,165</u> | <u>100%</u> |

III. Project Description

A. Background

Revonate Manufacturing, LLC, is a privately held company founded in February 2008 to remanufacture desktop and notebook computers and LCD monitors. It is a sister corporation of Seneca Data Distributors, Inc. (“Seneca Data”), which was formed in 1979 and is a full-service technology solution provider and distributor of high technology products including notebooks, servers and storage solutions. Seneca Data also manufactures its own line of custom hardware, personal computers and servers sold under its Nexlink brand. Both Revonate and Seneca Data are owned by Adolph Falso and located in the Syracuse area.

Seneca Data has had a longstanding partnership with Acer America (“Acer”), the second largest PC provider in the US. Previously, Acer remanufactured its own products at a facility in Texas at a slow turnaround rate and sold the refurbished products to Seneca Data. This sometimes left Seneca Data unable to close sales while waiting for computers from Acer. In 2008, an opportunity arose for Seneca Data to become the exclusive North American remanufacturer and distributor of refurbished products for Acer. Seneca Data’s management decided to create a new company, Revonate, to purchase and remanufacture retail returns from original equipment manufacturers, thus improving efficiency and process flow. Revonate could buy Acer’s retail returns, remanufacture the products and then sell to Seneca Data for distribution, resulting in Seneca Data’s control of the entire remanufacturing process. Seneca Data considered locating Renovate in the Syracuse area or in space acquired through the purchase of a competitor in Alpharetta, Georgia, in 2006. To make sure the new venture was located in New York State, ESD offered a \$125,000 capital grant, which was accepted on March 4, 2008. The formation of Revonate would result in the creation of 50 new jobs.

It should be noted that Seneca Data has been a past recipient of ESDC financing. In October 1998, the ESD Directors approved \$100,000 in infrastructure loan/grant financing to assist with Seneca Data’s expansion into a larger facility and growth from 65 to 140 employees within three years. Funds are fully disbursed, and all requirements were met. Current employment is 184.

B. The Project

The project, completed in June 2008, involved finding and outfitting a location for Revonate and hiring and training staff. Renovate leased 58,000 square feet of space in the Town of Clay and made leasehold improvements including warehouse racking, cabling and wiring. Equipment purchases included manufacturing and operational equipment, forklifts, foam pack dispensers, pallet jacks, information technology equipment, and office furniture and fixtures. The Company also recruited new employees, who participated in leadership development and operational training courses.

By June 2009, Revonate expanded into 108,000 square feet of additional leased space nearby at 7645 Henry Clay Boulevard for production and shipping operations. Revonate now remanufactures up to 4,000 units per day, up from 1,000 initially. In addition to Acer, major customers include retailers like Tiger Direct and Buy.com and stocking distributors such as Action

International Marketing. The Company has created 215 jobs, which far surpasses its goal of 50.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$125,000 capital grant (\$1,250) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material adverse change in its financial condition prior to disbursement.
3. Seneca Data, Inc., will guarantee the grant repayment obligation of its sister corporation, Revonate Manufacturing, LLC, in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed. 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.
5. 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 Locations 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 Locations 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.
6. Up to \$125,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$62,500) upon completion of the machinery and equipment and leasehold improvement portions of the project, documentation of machinery and equipment and leasehold improvement project costs totaling \$342,165, and documentation of the employment of at least 25 Full-time Permanent Employees at the Project Locations, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of an amount equal to 50% of the grant (\$62,500) will be disbursed upon documentation of the employment of at least 50 Full-time Permanent Employees at the Project Locations (Employment Increment of 25), provided Grantee is otherwise in compliance with program requirements;

Payment will be made upon presentation to ESDC of an invoice and such other documentation as ESDC may reasonably require. Expenditures must be incurred on or

after March 4, 2008, to be considered eligible project costs. All disbursements must be requested no later than April 1, 2012. Disbursements may be requested simultaneously.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$125,000, 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.
8. 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 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 | 0 |
|---------------------|---|

| A | B |
|------------------|------------------|
| Reporting Date | Employment Goals |
| February 1, 2012 | 0+X+Y |
| February 1, 2013 | 0+X+Y |
| February 1, 2014 | 0+X+Y |

X = Grantee's Employment Increment that will be the basis of the Initial Disbursement of the Grant as described in section C.5 above (i.e. X=25, and Employment Goals shall equal $[0 + X = 25]$ if the Initial Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Initial Disbursement has not yet been made then X=0.

Y = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.5 above (i.e. Y=25, and Employment Goals shall equal $[0 + X + Y = 50]$ if the Second Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Second Disbursement has not yet been made then Y=0.

IV. Statutory Basis

1. The proposed 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, the Company will create 50 new jobs.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

Without ESD assistance, this project would likely have taken place at an existing facility in Georgia.

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, the following are anticipated project impacts (dollar values are present value):

- Fiscal benefits to NYS government from the project are estimated at \$2,160,538;
- Fiscal cost to NYS government is estimated at \$125,000;
- Project cost to NYS government per direct job is \$3,289;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$984;
- Ratio of project fiscal benefits to costs to NYS government is 17.28:1;
- Fiscal benefits to all governments (state and local) are estimated at \$3,572,709;
- Fiscal cost to all governments is \$125,000;
- All government cost per direct job is \$3,289;
- All government cost per total job is \$984;
- The fiscal benefit to cost ratio for all governments is 28.58:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$14,557,079, or \$114,564 per job (direct and indirect);
- The economic benefit to cost ratio is 116.46:1;
- Project construction cost is \$79,450 which is expected to generate 1 direct job year and less than 1 indirect job year of employment;
- For every permanent direct job generated by this project, an additional 3.35 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 2 years.

(See Project Summary Benefit-Cost Evaluation attached for detail and definitions.)

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.

V. Environmental Review

ESD staff has determined that the project 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. No further environmental review is required in connection with the project.

VI. Affirmative Action

ESD’s Non-Discrimination and Affirmative Action policy will apply. Revonate Manufacturing, LLC is encouraged to include minorities and women in any job opportunities created by the Project and to solicit and utilize Minority and Women-owned Business Enterprises for any contractual opportunities generated in connection with the Project.

VII. ESD Financial Assistance Subject to Availability of Funds and Additional Approval

The provision of ESD financial assistance is contingent upon the availability of funds and the approval of the State Division of the Budget.

VIII. Additional Submissions to Directors

Resolutions
New York State Map
Project Finance Memorandum
Cost-Benefit Analysis

December 16, 2010

Liverpool (Onondaga County) – Revonate Manufacturing Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; Authorization to Adopt the Proposed General Project Plan; Authorization to Make a Grant and to Take Related Actions

RESOLVED, that on the basis of the materials presented to this meeting, a copy of which is hereby ordered filed with the records of the Corporation, relating to the Revonate Manufacturing Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Sections 16-m and 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that

1. The proposed 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;
2. The project would be unlikely to take place in New York State without the requested assistance;
3. The project is reasonably likely to accomplish its stated objectives and that the likely benefits of the project exceed costs;
4. There are no families or individuals to be displaced from the project area; and be it further

RESOLVED, that the Corporation does hereby adopt, subject to the requirements of Section 16(2) of the Act, the proposed General Project Plan (the “Plan”) for the Project submitted to this meeting, together with such changes therein as the Chairman and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, a copy of which Plan, together with such changes, is hereby ordered filed with the records of the Corporation; and be it further

RESOLVED, that upon written finding of the Chairman and Chief Executive Officer of the Corporation or his designee(s) that no substantive negative testimony or comment has been received at the public hearing held on the Plan, such Plan shall be effective at the conclusion of such hearing, and that upon such written finding being made, the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Revonate Manufacturing, LLC a grant for a total amount not to exceed One Hundred Twenty-Five Thousand Dollars (\$125,000) from the Empire State Economic Development Fund, for the purposes, and substantially on the terms and conditions, set forth in the materials presented to this meeting, with such changes as the Chairman and Chief Executive Officer of the Corporation or his designee(s) may deem appropriate, subject to the availability of funds and the approval of the State Division of the Budget; and be it further

RESOLVED, that the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, subsequent to the making of the grant, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the grant as he or she may deem necessary or appropriate in the administration of the grant; and be it further

RESOLVED, that the provision of ESD financial assistance is expressly contingent upon: (1) the approval of the Public Authorities Control Board, if applicable, and (2) receipt of all other necessary approvals; and be it further

RESOLVED, that the Chairman and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized in the name and on behalf of the Corporation to execute and deliver any and all documents and to take all actions as he or she may in his or her sole discretion consider to be necessary or proper to effectuate the foregoing resolutions.

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