

FOR CONSIDERATION

July 23, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Potsdam (St. Lawrence County) – Potsdam Specialty Paper Working Capital – Empire State Economic Development Fund – General Development Financing (Working Capital Grant)

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

I. Project Summary

Grantee: Potsdam Specialty Paper, Inc. (“PSPI” or the “Company”)

ESD Investment: A working capital grant of up to \$250,000 to be used for a portion of the Company’s initial start-up and operating costs.

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

Project Location: 547A Sissonville Road, Potsdam, St. Lawrence County

NYS Empire Zone
(or equivalent): Potsdam Empire Zone

Proposed Project: Asset purchase (including R/E, M&E and inventory), initial start-up, and daily operating costs during PSPI’s first year of operation.

ESD Incentive Offer Accepted: November 7, 2008

Project Completion: April 2009

Number of Employees at Project Location:

| | |
|--|----|
| Initial employment (at time of ESD Incentive Offer): | 79 |
| Current employment level: | 79 |
| Minimum employment through January 1, 2014: | 79 |

Grantee Contact: Ron Charette, General Manager
 547A Sissonville Road
 Potsdam, NY 13676
 Phone: (315) 265-4000
 Fax: (315) 265-4004

Anticipated
 Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: W512

| | | |
|---------------|--------------------------------|---------------|
| Project Team: | Origination/Project Management | Ron Stanton |
| | Affirmative Action | Laverne Poole |
| | Finance | Ross Freeman |
| | Environmental | Soo Kang |

II. Project Cost and Financing Sources

| <u>Financing Uses</u> | <u>Amount</u> |
|---|----------------------------|
| Asset purchase (including real estate, machinery and equipment and inventory) | \$3,280,000 |
| Working capital | <u>7,720,000</u> |
| Total Project Costs | <u>\$11,000,000</u> |

| <u>Financing Sources</u> | <u>Amount</u> | <u>Percent</u> | <u>Rate/Term/Lien</u> |
|--------------------------------|----------------------------|----------------------|-------------------------------------|
| ESD-Grant | \$250,000 | 2.0% | |
| DANC* | 200,000 | 1.8% | 3%/5yrs/2nd lien on M&E |
| GMEDF** | 200,000 | 1.8% | 3%/5yrs/ 2nd lien on M&E |
| SLCIDA*** | 200,000 | 1.8% | 3%/5yrs/2 nd lien of M&E |
| Town of Potsdam | 200,000 | 1.8% | 3%/5yrs/2 nd lien of M&E |
| Mead Westvaco | 6,524,042 | 59.8% | 10.6%/1yr/first lien on Assets |
| Company Equity | <u>3,425,958</u> | <u>31.0%</u> | |
| Total Project Financing | <u>\$11,000,000</u> | <u>100.0%</u> | |

*Development Authority of the North Country
 ** Greater Massena Economic Development Fund
 *** St. Lawrence Count Industrial Development Agency

III. Project Description

A. Background

The Potsdam Specialty Paper, Inc's mill has a history of paper manufacturing dating back to 1892 as the Reaquette River Paper Company. The Company changed ownership a number of times over the next 100 years being acquired by the Mead Corporation in 1998 ("Mead"). Mead, which is now MeadWestvaco Corporation, purchased this site to provide capacity for its Specialty Paper Division, specifically for Wear-Resistant Overlay (a protective sheet for laminate flooring).

Mead is a global packaging company that provides packaging solutions to many of the world's brands in the healthcare, personal and beauty care, food, beverage, tobacco, media and entertainment, and home and garden industries. Mead's other business operations serve the consumer and office products, specialty chemicals, forestry and real estate markets. Mead operates in five business segments: Packaging Resources, Consumer Solutions, Consumer and Office Products, Specialty Chemicals, and Community Development and Land Management.

Mead invested more than \$50 million at its Potsdam facility, transforming the existing operation into an updated, state-of-the art paper manufacturing site. Unfortunately, this market was eroded by alternative technology and Mead was forced to develop an alternant portfolio of products that did not deliver the returns Mead was accustomed to. The low margins were insufficient to cover cost of capital investment and the high overhead passed on from the division and corporate shared services. In 2005 Mead solidified its vision for the future focusing on packaging and packaging-support only. Several divestitures of business units that did not fit into this vision began; the Specialty Papers Division fell within this description and activities to divest this business unit were underway.

Mead marketed its facility to several targeted companies that Mead felt had a strategic fit with its Potsdam operation; ArjoWiggins, Neenah and Ahlstrom were the primary prospects. In addition, one interested party was the founder and president of Coastline Paper International ("Coastline"), Kenny Zhang, who was one of Mead's significant customers and had a vested interest in assuring business continuance as Mead and Coastline had a sole-supplier agreement. When the other potential owners all decided not to move forward with the purchase, Kenny Zhang formed a small equity group for the sole purpose of acquiring the facility. Kenny Zhang is also a major shareholder of Seafront Paper Limited (the "Parent"). After months of discussions with ESD and local government agencies, ESD, in an incentive offer dated October 28, 2008, offered PSPI a \$250,000 working capital grant to help support the initial start-up cost and retain the 79 jobs currently employed by Mead. PSPI will benefit from the business partnerships that Coastline already enjoys, especially in the Asian markets. Tape base paper will continue to provide 60% of the Company's production supplying companies including Coastline, Fibermark, Intertape Polymer Group and Shurtape. Wallpaper base paper will be the second largest product mix supplying CBC, Wallquest, York and Seafront HongKong Ltd.

Having shed the financial weight of sharing in the cost structure of its division and corporate structure, PSPI lean operation and global infrastructure to capitalize on high growth

market places position's the Company for significant growth and profitability in the near future.

B. The Project

PSPI is a new company wholly-owned by the Parent for the purpose of acquiring the assets of Mead. As a new start-up, PSPI will operate all business functions including sales and marketing, customer service, procurement, manufacturing, human resources, finance and logistics. As a new business it will take time to establish a credit history, which is needed in order to establish a line-of-credit to support daily cash-flow needs. ESD's grant will be used to help offset current operating cost until such time as conventional financing becomes available. The acquisition and continued operation of this Mill will provide an estimated economic benefit in excess of \$18 million annually to the local economy.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$250,000 working capital grant (\$2,500) upon execution of the grant disbursement agreement.
2. The Company will demonstrate no material adverse change in its financial condition prior to disbursement.
3. Seafront Paper Limited will guarantee the grant repayment obligation of its subsidiary, Potsdam Specialty Paper, in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. The Company or the Company's shareholders will contribute at least 10% in equity to the project. Equity is defined as any non-debt source of capital, and should be auditable through Company financial statements or Company accounts, if so requested by ESD.
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 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.
6. Up to \$250,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$125,000) will be disbursed for working capital purposes, upon completion of the project substantially as described in these materials, documentation of project costs totaling \$7.5 million in asset acquisition and working capital cost, and documentation of at least 79 Full-time Permanent Employees at the Project Location, assuming that all project approvals have

- been completed and funds are available;
- b) a Second Disbursement of an amount equal to 25% of the grant (\$62,500) will be disbursed upon documentation of additional working capital project costs totaling \$1.75 million (\$9.25 million cumulative total investment), and documentation of at least 79 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$62,500) will be disbursed upon documentation of additional working capital project costs totaling \$1.75 million (\$11 million cumulative total investment), and documentation of at least 79 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;

Payment will be made upon presentation to ESDC of an invoice and such other documentation as ESDC may reasonably require. Expenses must be incurred on or after September 1, 2008 to be considered eligible project costs. All disbursements must be requested by April 1, 2012.

- 7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$250,000, 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 | 79 |
|---------------------|----|

| A | B |
|------------------|------------------|
| Reporting Date | Employment Goals |
| February 1, 2010 | 79 |
| February 1, 2011 | 79 |
| February 1, 2012 | 79 |
| February 1, 2013 | 79 |
| February 1, 2014 | 79 |

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 retain 79 jobs which were at risk of elimination.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.
The Company considered closing its operations. ESD’s assistance helped to reduce costs and attract a new buyer/operator.

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 \$1,953,215;
 - Fiscal cost to NYS government is estimated at \$250,000;
 - Project cost to NYS government per direct job is \$5,575;
 - Project cost to NYS government per job (direct plus indirect) is estimated at \$2,773;
 - Ratio of project fiscal benefits to costs to NYS government is 7.81:1;
 - Fiscal benefits to all governments (state and local) are estimated at \$3,236,839;
 - Fiscal cost to all governments is \$250,000;
 - All government cost per direct job is \$5,575;
 - All government cost per total job is \$2,773;
 - The fiscal benefit to cost ratio for all governments is 12.95:1;

- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$17,495,985, or \$194,046 per job (direct and indirect);
- The economic benefit to cost ratio is 69.98:1;
- There is no construction activity related to this project;
- For every permanent direct job generated by this project, an additional 1.02 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 3 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. The Company 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

July 23, 2009

Potsdam (St. Lawrence County) – Potsdam Specialty Paper Working Capital – Empire State Economic Development Fund – General Development Financing (Working Capital Grant) – Findings and Determinations Pursuant to Sections 16-m and 10 (g) of the Act; 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 Potsdam Specialty Paper Working Capital – Empire State Economic Development Fund – General Development Financing (Working 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 Chairman and Chief Executive Officer-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Potsdam Specialty Paper, Inc. a grant for a total amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000) 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-Designate 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-Designate 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-Designate 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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