

FOR CONSIDERATION

July 13, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Olean (Cattaraugus County) – SolEpoxy 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; Determination of No Significant Effect on the Environment

General Project Plan

I. Project Summary

Grantee: SolEpoxy, Inc. (“SolEpoxy” or the “Company”)

ESD* Investment: A grant of up to \$400,000 to be used for a portion of the costs to acquire new machinery and equipment.

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

Project Location: 211 W. Franklin Street, Olean, Cattaraugus County

Proposed Project: Acquisition of buildings, land and the purchase of machinery and equipment for the manufacturing of existing and new epoxy powder product lines.

ESD Incentive Offer Accepted: August 31, 2010

Project Completion: September 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	40
Current employment level:	45
Minimum employment on January 1, 2014:	49

Grantee Contact: Jeff Belt, President
35 Newman Place
Buffalo, NY 14210
Phone: (716) 913-7878
Fax: (716) 824-9400

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: X194

Project Team:	Origination	Diego Sirianni
	Project Management	Jim Seymour
	Affirmative Action	Helen Daniels
	Finance	Jonevan Hornsby
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Acquisition	\$1,000,000
Inventory, Machine & Equipment	4,120,000
Soft Costs	<u>82,000</u>

Total Project Costs \$5,202,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$400,000	8%	
Five Star Bank Loan	3,070,000	59%	6%/5 yrs/1 st on M&E
Company Equity	1,310,000	25%	
Owner Equity	<u>422,000</u>	<u>8%</u>	
Total Project Financing	<u>\$5,202,000</u>	<u>100%</u>	

III. Project Description

A. Background

SolEpoxy, established in 2010, is a privately owned company formed to acquire three existing product lines of plastic materials and resin manufacturing from Henkel Technologies in Olean, New York. Henkel Technologies, headquartered in Germany, specializes in the development of laundry, home care, cosmetics, and adhesive products. It had been operating a powder epoxy manufacturing facility in Olean, NY and determined that it would close this facility and consolidate the function to other locations. Henkel had closed many of its Northeastern United States plants and had shifted operations to the Southeastern United States and China.

Realizing the potential and niche market for epoxy powder production, SolEpoxy was created with the intent to purchase the closing plant. Henkel Technologies provided generous terms for the acquisition of inventory, machinery and equipment including a deferred acquisition payment in the form of a balloon note. SolEpoxy informed ESD that it needed financial assistance to complete the asset purchase and help reduce the balloon bank note before SolEpoxy could negotiate a permanent working capital term loan. In August 2010, ESD provided SolEpoxy with an incentive proposal consisting of a \$400,000 capital grant, resulting in the Company's decision to acquire buildings, land, machinery and equipment to continue the production of several specialty epoxy powders. As a result, 38 jobs were immediately retained. The Company will create an additional 9 new jobs no later than 2014.

Presently, SolEpoxy's products are sold to over 100 customers representing industrial equipment, electronics, medical devices and automotive industries. Major customers include Coto Technologies (North Kingston, RI); ASCO Valve Inc. (Florham Park, NJ); Thomas and Betts Corporation (Memphis, TN). Major competitors include Akzo Noble (Amsterdam, Netherlands); Valspar (Minneapolis, MN); and 3M (St. Paul, MN).

B. The Project

The \$5.202 million project involves the acquisition of an 14-acre parcel, machinery and equipment and 300,000 square feet of fully equipped manufacturing and laboratory R&D space. The Company will manufacture three specialty products including thermoset epoxy molding compounds for rugged electrical components, electrically insulating epoxy powder coatings, and optically clear molding compound for high-end electro-optical applications. In addition, the Company is providing manufacturing space, under contract, for Henkel to operate an existing epoxy product line until the end of 2011 when this line will be relocated to North Carolina. The acquisition of the buildings, land and the purchase of machinery and equipment was completed in September 2010. The Company currently employs 45 full-time employees.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$400,000 capital grant (\$4,000) 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 any material or adverse changes in its financial condition prior to disbursement.
3. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Company's 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.
5. Up to \$400,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$200,000) upon documentation of acquisition and continuation of operations of the acquired Henkel facility in Olean, including acquisition of machinery and equipment and real estate project costs totaling \$1.65 million and documentation of the employment of at least 40 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 (\$100,000) will be disbursed upon documentation of the employment of at least 45 Full-time Permanent Employees at the Project Location (Employment Increment of 5), additional project expenditures of \$1.85 million (cumulative project expenditures of approximately \$3.5 million), and a positive EBITDA for at least the prior three months, provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$100,000) will be disbursed upon documentation of the employment of at least 49 Full-time Permanent Employees at the Project Location (Employment Increment of 4), additional project expenditures of \$1.85 million (cumulative project expenditures of approximately \$5.202 million) and a positive EBITDA for at least the prior three months, provided Grantee is otherwise in compliance with program requirements.

Payment will be made upon presentation to ESD of an invoice and such other

documentation as ESD may reasonably require. Expenses must be incurred on or after August 31, 2010, to be considered eligible project costs. All disbursements 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 \$400,000, 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 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	40
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A	B
Reporting Date	Employment Goals
February 1, 2012	40+X+Y
February 1, 2013	40+X+Y
February 1, 2014	40+X+Y
February 1, 2015	40+X+Y
February 1, 2016	40+X+Y

X = 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. X=5, and Employment Goals shall equal $[40 + X = 45]$ 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 X=0.

Y = Grantee's Employment Increment that will be the basis of the Third Disbursement of the Grant as described in section C.5 above (i.e. Y=4, and Employment Goals shall equal $[40 + X + Y = 49]$ if the Third Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Third 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 maintain its employment level of 40 and create 9 new jobs.

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

The Company considered relocating its operations out of the United States. ESD's assistance helped to reduce costs and make the project feasible in New York.

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 \$2,988,199;
- Fiscal cost to NYS government is estimated at \$400,000;
- Project cost to NYS government per direct job is \$12,655;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$3,178;
- Ratio of project fiscal benefits to costs to NYS government is 7.47:1;
- Fiscal benefits to all governments (state and local) are estimated at \$6,749,217;

- Fiscal cost to all governments is \$400,000;
- All government cost per direct job is \$12,655;
- All government cost per total job is \$3,178;
- The fiscal benefit to cost ratio for all governments is 16.87:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$27,710,220, or \$220,125 per job (direct and indirect);
- The economic benefit to cost ratio is 69.28:1;
- Project construction cost is \$1,082,000 which is expected to generate 11 direct job years and eight indirect job years of employment;
- For every permanent direct job generated by this project, an additional 2.99 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is two 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. SolEpoxy, Inc 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 13, 2011

Olean (Cattaraugus County) – SolEpoxy 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 SolEpoxy 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 President 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 President 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 President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to SolEpoxy, Inc. a grant for a total amount not to exceed Four Hundred Thousand Dollars (\$400,000) 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 President 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 President 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 President and Chief Executive Officer 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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