

FOR CONSIDERATION

June 15, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Coxsackie (Greene County) – Ducommun AeroStructures New York MAP 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: Ducommun AeroStructures New York, Inc. (“DAS” or the “Company”)

ESD* Investment: A grant of up to \$400,000, pending passage of the New York State budget, to be used for a portion of the cost of the purchase and installation of machinery and equipment.

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

Project Location: 2 Flint Mine Road, Coxsackie, Greene County

NYS Empire Zone
(or equivalent): Greene County

Proposed Project: Purchase and installation of new machinery and equipment, and employee training associated with an increase in manufacturing capacity.

ESD Incentive Offer Accepted: April 19, 2007 (initial offer); November 28, 2007 (revised offer)

Project Completion: July 2009

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	180
Current employment level:	224
Minimum employment through January 1, 2013:	180

Grantee Contact: Dennis Fitzgerald, Director of Integrated Product Teams
2 Flint Mine Road
Coxsackie, New York 12051
Phone: (518) 731 4648
Fax: (518) 731-6333

Anticipated
Appropriation
Source:

Empire State Economic Development Fund

ESD Project No.: U367

Project Team:	Origination	Linda Dillon
	Project Management	Gregory E. Fitzgerald
	Legal	Jonathan Beyer
	Affirmative Action	Laverne Poole
	Finance	Jonathan Springer
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Machinery and Equipment	\$2,805,000
Employee Training	<u>335,000</u>

Total Project Costs \$3,140,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	400,000	13%
Company Equity	<u>2,740,000</u>	<u>87%</u>

Total Project Financing \$3,140,000 100.0%

III. Project Description

A. Background

Ducommun AeroStructures New York (formerly DynaBil Industries, Inc.) is a publicly traded manufacturer of precision sheet metal components and assemblies for the aerospace industry in Coxsackie, Greene County. The Company's integrated processes include stretch-forming, thermal-forming, chemical milling, precision fabrication, machining, finishing processes, and integration of components into subassemblies. DAS is the largest independent supplier of composite and metal bond structures and assemblies in the US, including aircraft wing spoilers, helicopter blades, flight control surfaces and engine components. Markets served include commercial aircraft, regional and business jet aircraft, military aircraft, commercial and military helicopters, and space launch vehicles. Some of DAS's main clients are Boeing, Sikorsky, Lockheed Martin, Bombardier, Bell and the US Government.

Manufacturing is the most significant wealth-creating and value-adding sector of the NYS economy outside of the New York City metropolitan area. The purpose of the ESD's Manufacturing Assistance Program ("MAP") is to encourage New York State manufacturers to invest in projects that substantially improve the competitiveness and productivity of their operations, thus increasing their long-term viability and ensuring the health of the state's manufacturing economy.

The global aerospace industry is growing in all segments with particular strength in commercial aircraft and defense and security helicopters. Currently, many aircraft manufactures have backlogs that have exceeded capacity; suppliers that can deliver manufacturing capacity will grow and others that cannot compete will lose market share. In order to remain competitive and continue to succeed in the global aerospace market, DAS must increase capacity to meet the demand, refine processes to improve quality and increase productivity to maintain competitive pricing.

In 2007, DAS lacked the manufacturing capacity to meet the customer demands. The Company did not have adequate floor space; new components and assemblies require room for inventory, operations and support equipment. The additional parts and increased quantities of existing parts would require additional equipment to increase output. New and existing employees needed office space and training on systems, equipment and processes.

The Company approached ESD and to seek assistance with financing costs. To induce the Company to make this investment and to proceed with the project in New York State, in April 2007 ESD offered a \$400,000 MAP grant to defray the high cost of new machinery and equipment. The Company accepted the offer and subsequently purchased the new machinery. The project would result in the retention of 180 jobs. In November 2007, ESD's Incentive Proposal was updated and the total project costs were revised because of a change in the project scope. Furthermore, in December 2008, DynaBil Industries, Inc. was acquired by Ducommun AeroStructures, Inc. and became Ducommun AeroStructures New York, Inc., a wholly owned subsidiary. The Company's official name change was completed in July 2009. There was no significant change to the Company or its client base as a result of the acquisition.

Without ESD's assistance, DAS would not have been able to purchase the machinery and equipment, resulting in a decrease in productivity and a subsequent negative impact on its competitive advantage.

B. The Project

The project involved the purchase and installation of new machinery and equipment in order to meet the expanding demands of the aerospace industry. DAS has made investments in process line equipment, forming and production equipment, tooling and fixtures, computer hardware and software to support the engineering design. As a result of the new machinery and equipment, employees were trained to use the new machinery and equipment to further productivity and ensure efficiency. The project was completed in July 2009 and the Company has 224 employees, which already exceeds the 180 jobs it has agreed to retain.

In May 2008, DAS signed a 10-year lease on 37,000 square feet of additional manufacturing floor and office space at the Greene Business & Technology Park in Coxsackie.

C. MAP Project Findings and Outcomes

This project qualifies as a Manufacturing Assistance Program project because the Company i) is a resident New York State manufacturer with between 50 and 1,000 employees; ii) exports at least 30% of its production beyond its region or provides at least 30% of its production to a manufacturer that exports beyond the Company's region; and iii) is making a substantial investment of at least \$1,000,000 in order to improve its competitiveness and productivity and thereby enhance its long-term viability in the State of New York.

The project is expected to produce the following measurable outcomes for the Company:

Primary Outcome(s): An increase in a monthly production from 1.5 ship sets to 5.25 ship sets per month for the 787 Program and an increase in monthly production from 2.5 ship sets to 4.75 ship sets per month for the H-60 program.

Secondary Outcome(s): Increase in productivity and overall operating revenue; more efficient cost and process.

Total estimated value of competitiveness and project outcomes: \$16,343,200 annually

D. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$400,000 capital grant (\$4,000) upon execution of the grant disbursement agreement. In addition, at the time of disbursement, the Company will 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. Ducommun Inc. will guarantee the grant repayment obligation of its subsidiary, Ducommun AeroStructures New York, Inc., 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 \$400,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$200,000) will be disbursed upon documentation of machinery and equipment project costs totaling \$1.4 million; an increase in monthly production from 1.5 ship sets to 5.25 ship sets per month for the 787 Program and an increase in monthly production from 2.5 ship sets to 4.75 ship sets per month for the H-60 Program as reported by the plant manager and verified by a CPA; and documentation of the employment of at least 180 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 the grant (\$200,000) will be disbursed upon documentation of the purchase and installation of additional machinery and equipment and completion of training, totaling an additional \$1.6 million (\$3 million total), and documentation of at least 180 full-time Permanent Employees and submission of documentation verifying project expenditures, occupancy and commitment under a ten-year lease for the new 37,000-square-foot facility.

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 April 24, 2007 to be considered eligible project costs.

7. 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.

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 ESDC, Grantee shall be obligated to repay to ESDC 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	180
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A	B
Date	Employment Goals
February 1, 2011	180
February 1, 2012	180
February 1, 2013	180
February 1, 2014	180
February 1, 2015	180

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 make significant investments in its manufacturing facility, thereby ensuring its continued viability and the retention of 180 employees. In addition, this project will help make the Company more competitive, and thus increase the economic viability of the state's manufacturing industry.

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

Without ESD assistance, this project would unlikely have taken place in New York State, especially since the Company experienced a dramatic decrease in business by the commercial airline industry in the early 2000s resulting in significant financial and employment losses.

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 \$4,945,465;
- Fiscal cost to NYS government is estimated at \$400,000;
- Project cost to NYS government per direct job is \$3,764;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$1,998;
- Ratio of project fiscal benefits to costs to NYS government is 12.36:1;
- Fiscal benefits to all governments (state and local) are estimated at \$8,250,156;
- Fiscal cost to all governments is \$400,000;
- All government cost per direct job is \$3,764;
- All government cost per total job is \$1,998;
- The fiscal benefit to cost ratio for all governments is 20.63:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$44,417,049, or \$221,862 per job (direct and indirect);
- The economic benefit to cost ratio is 111.04:1;
- There is no construction activity related to this project;
- For every permanent direct job generated by this project, an additional 0.89 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is year.

(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, although the funding of this project by ESD may constitute an “action” as defined by the State Environmental Quality Review Act (“SEQRA”), the project itself has been previously completed. ESD’s action in the funding decision will not alter the adverse environmental impacts, if any, of the project as completed. ESD staff accordingly believes that funding the completed project will not have any significant adverse impacts on the environment.

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

June 15, 2010

Coxsachie (Greene County) – Ducommun AeroStructures MAP 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 Ducommun AeroStructures 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 Ducommun AeroStructures New York 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 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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June 15, 2010

Coxsackie (Greene County) – Ducommun AeroStructures New York MAP Capital –
Empire State Economic Development Fund – General Development Financing (Capital
Grant) – Determination of No Significant Effect on the Environment

RESOLVED, that based on the material submitted to the Directors with respect to the Ducommun AeroStructures New York MAP Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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