

## 2. Innovative Wood Solutions Capital (W467)

March 26, 2010

### General Project Plan

**Grantee:** Innovative Wood Solutions, Inc. (“Innovative Wood” or the “Company”)

**ESD Investment:** A grant of up to \$100,000 to be used for a portion of the cost of facility acquisition and the purchase and relocation of machinery and equipment.

**Project Location:** 312 Fair Oak Street, Little Valley, Cattaraugus County

**NYS Empire Zone (or equivalent):** Cattaraugus County Empire Zone

**ESD Incentive Offer Accepted:** September 30, 2008

**Project Completion:** March 2009

**Number of Employees at Facility:**

Initial employment at time of ESD Incentive Offer:	0
Current employment level:	22
Minimum employment on January 1, 2012:	54

**Grantee Contact:** Max J. Krug, President  
312 Fair Oak Street  
Little Valley, NY 14755  
Phone: 716-938-9182 Fax: 716-938-9242

**Project Team:**

Origination	Robert Iszard
Project Management	Jim Seymour
Affirmative Action	Helen Daniels
Environmental	Soo Kang

### **Project Description:**

#### Background

Innovative Wood Solutions, established in 2008, is a family run, privately owned manufacturer of residential and commercial wood products, including specialty millwork and fixtures.

Soon after establishment, Innovative Wood was contacted by Randolph Dimension Corporation (“RDC”), a manufacturer of hardwood dimension stock, including furniture kits, and various unfinished wood products, for the furniture industry. RDC, established in 1965, employed less than ten people at its Randolph facility and had informed Innovative Wood that it would close due to significant financial difficulty if it was not immediately sold. The Company acquired the assets of RDC in November 2008, and expanded RDC’s product line to include finished products, including finished flooring and molding and

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custom-built cabinetry.

Major customers include Artone Manufacturing Company Inc. (Jamestown, NY); Fancher Chair Company (Falconer, NY) and American Eagle Forest Products (New Bern, NC).

Major competitors include Fitzpatrick & Weller (Ellicottville, NY), Bradford Forest Products (Bradford, PA), and local construction/specialty contractors.

While working on acquiring RDC, Innovative Wood realized that it would need to expand its operations. The Company identified an opportunity to purchase a vacant building in Little Valley, previously occupied by Bush Industries, Inc. (“Bush”) until late 2007 when Bush relocated to its Jamestown facility. Bush offered to provide owner-financing for the building; however Innovative Wood did not have sufficient funds to acquire new machinery and equipment and relocate/expand operations. Therefore, the Company sought assistance and accepted ESD’s offer of a \$100,000 capital grant on September 30, 2008, resulting in the Company’s decision to acquire the Bush building and expand operations. The ESD capital grant will be used towards reimbursement for a portion of the costs associated with the purchase and installation of new machinery and equipment associated with moving into the new facility. As a result of this project, 54 jobs will be created by January 1, 2012. Innovative Wood will also employ approximately eight former RDC employees. Without ESD assistance, Innovative Wood will have to close its current facilities and liquidate all assets and the facility.

### The Project

The \$1.585 million project involves the acquisition of an 80,000-square-foot facility; the acquisition of new machinery including wood working equipment for machines and custom finishing; and the relocation of existing machinery, wood working equipment and office equipment from the former RDC facility in Randolph. The project was complete in November 2008 and the Company has already created 21 jobs. Innovative Wood currently utilizes approximately 50,000 square feet of the former Bush facility and plans to provide leasing options for the remaining space to wood-based companies.

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Financing Uses	Amount	Financing Sources	Amount	Percent
Acquisition	\$565,000	ESD Grant	\$100,000	6%
Machinery & Equipment	270,000	Company Equity	230,000	15%
Relocation Costs	750,000	Bush Industries <sup>(a)</sup>	400,000	25%
		H2K Ventures LLC <sup>(b)</sup>	150,000	9%
		Gary Peterson/RDC <sup>(c)</sup>	105,000	7%
		M&T Bank Loan <sup>(d)</sup>	300,000	19%
		NYS Community Development Block Grant	200,000	13%
		Cattaraugus County Development Corp Grant	100,000	6%
<b>Total Project Costs</b>	<b>\$1,585,000</b>	<b>Total Project Financing</b>	<b>\$1,585,000</b>	<b>100%</b>

(a) 7%/20yrs./1<sup>st</sup> building

(b) 7%/7yrs/unsecured

(c) 5%/5yrs/1<sup>st</sup> on machinery/equipment

(d) 7%/5yrs/1<sup>st</sup> AR & Inventory

**Financial Terms and Conditions:**

1. The Company shall pay a commitment fee of 1% of the \$100,000 capital grant (\$1,000) 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 be obliged to advise ESD of no material adverse change in its financial condition prior to disbursement.
3. 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.
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 \$100,000 will be disbursed to the Grantee in three installments as follows:
  - a) 50% of the grant (\$50,000) will be disbursed to Grantee upon completion of the project as described in these materials, including the purchase and installation of approximately \$270,000 in machinery and equipment, documentation of project expenditures of approximately \$1.5 million and documentation of the employment of at least 18 Full-time Permanent Employees at the Project Location (Employment Increment of 18) assuming that all project approvals have been completed and funds are available;
  - b) A Second Disbursement of 25% of the grant (\$25,000) will be disbursed upon documentation of the employment of at least 36 Full-Time Permanent Employees at the Project Location (Employment Increment of 18), provided Grantee is otherwise in compliance with program requirements;
  - c) A Third Disbursement of 25% of the Grant (\$25,000) will be disbursed upon documentation of the employment of at least 54 Full-time Permanent Employees at the Project Locations (Employment Increment of 18), provided Grantee is otherwise in compliance with the program requirements;

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 30, 2008 to be considered eligible project costs. All disbursements must be requested by April 1, 2012.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$100,000, 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;

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- (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
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A	B
Reporting Date	Employment Goals
February 1, 2011	0 +X+Y+Z
February 1, 2012	0+X+Y+Z
February 1, 2013	0+X+Y+Z
February 1, 2014	0+X+Y+Z

X = Grantee’s Employment Increment that will be the basis of the First Disbursement of the Grant as described in section C.5 above (i.e. X=18, and Employment Goals shall equal [0 + X = 18] if the First Disbursement is made, in the year such disbursement is made and for each year thereafter). If the First 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=18, and Employment Goals shall equal [0 + X + Y = 36] 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.

Z = 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. Z=18, and Employment Goals shall equal [0 + X + Y + Z = 54 ] 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 Z=0

**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.

**Statutory Basis – Empire State Economic Development Fund:**

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.

As a result of this project, the Company will create 54 new jobs by January 1, 2012.

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2. The proposed project would be unlikely to take place in New York State without the requested assistance.  
Without ESD assistance to lower costs and help make the Company's facility with competitive with outside markets, the cost would have been exceeded the Company's financial boundaries allowing the project to be 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, project fiscal benefits to New York State government are expected to be \$1,213,561, which exceed the cost to the State.
4. The requirements of Section 10(g) of the Act are satisfied.  
See cover memo.