

E. Air Innovations Capital (W533)

March 23, 2011

General Project Plan

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

ESD Investment: A grant of up to \$30,000 to be used for a portion of the cost of new machinery and equipment.

Project Location: 7000 Performance Drive, North Syracuse, Onondaga County

ESD Incentive Offer Accepted: January 27, 2009

Project Completion: December 2010

Number of Employees at Facility:

Initial employment at time of ESD Incentive Offer:	36
Current employment level:	43
Minimum employment through January 1, 2015:	46

Grantee Contact: Cheryl Gressani, Director of Business Development
7000 Performance Drive
North Syracuse, NY 13212-3439
Phone: (315) 452-7435 Fax: (315) 452-7420

Project Team:

Origination	James Fayle
Project Management	Jessica Hughes
Affirmative Action	Helen Daniels
Environmental	Rachel Shatz

Project Description:

Background

Air Innovations, Inc., a privately held company founded in Syracuse in 1986, designs, tests, and manufactures self-contained and remote packaged cooling systems, including air conditioning units and environmental control systems. The Company tailors its products to specific customer needs, spanning industries including aerospace and medical device and pharmaceuticals, to the wine refrigeration industry. Air Innovations manufacturing capabilities range from small scale to mass production and it manufactures custom heating, ventilation, air conditioning, and refrigeration (“HVAC/R”) equipment for original equipment manufacturers. More than 50% of these sales are for applications related to homeland security, military and healthcare. The Company’s other divisions include Isolation Air (portable contamination control units), HEPAiRx (ventilating air purifiers), and Wine Guardian (wine cellar cooling). Wine Guardian, launched in 2005, is now the fastest growing and second largest of the Company’s many divisions, manufacturing cooling systems used primarily for larger commercial and residential wine cellar refrigeration.

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In 2008, in an effort to remain competitive with these larger companies, Air Innovations decided it needed to improve its technical capabilities, quality control and research and development strategies. The Company sought to expand its factory to build more highly specialized HVAC/R equipment more efficiently, but lacked the financial resources to complete the project. ESD responded with a \$30,000 capital grant to close the funding gap, and the offer was accepted by the Company in January 2009. ESD's funding was an important factor in Air Innovation's ability to expand in New York State versus possibly having to relocate certain divisions to Pennsylvania or out of the country to Denmark. The project will result in the retention of 36 existing jobs and the creation of 10 new jobs at the Company's facility in North Syracuse.

The Project

The project was completed in December 2010 and consisted of two phases. The first phase began in January 2009 and included the creation of a new production test cell and the acquisition and installation of a new refrigeration evacuation and charging system, and a new generator. This will allow the Company to experiment with more precise technical parameters when it designs new equipment and will aid in charging and testing multiple products faster and more accurately, improving the Company's quality control procedures, reducing turnaround times and service and warranty calls. The testing facility and refrigeration equipment will be used for demonstrations during the sales cycle. The Company currently sells 12% of its products internationally and is positioned to substantially increase export revenues as it expands distribution in Europe.

The second phase of the project consisted of the design and manufacture of a new, smaller line of "Through-the-Wall" Wine Guardian wine cellar cooling units specifically tailored for distribution to small to mid-sized residential cellars. Air Innovations partnered with an outside industrial design firm on the cabinetry and branding for the new product. Engineering the refrigeration and electrical components were handled in-house. The entire project will result in the creation of 10 new full-time permanent jobs.

Financing Uses	Amount	Financing Sources	Amount	Percent
Machinery & Equipment	\$136,312	ESD Grant	\$30,000	7%
Construction/Renovation	138,569	Company Equity	414,844	93%
Soft Costs	169,963			
Total Project Costs	\$444,844	Total Project Financing	\$444,844	100%

Financial Terms and Conditions:

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$30,000 capital grant (\$300) 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 a material adverse change in its financial condition prior to disbursement.

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3. The Company will be required to contribute at least 10% of the total project cost in the form of equity contributed after the Company's written 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 \$30,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$15,000) upon completion of the project substantially as described in these materials, documentation of project costs totaling \$444,844, and documentation of the employment of at least 41 Full-time Permanent Employees at the Project Location (Employment Increment of 5), 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 (\$15,000) will be disbursed upon documentation of the employment of at least 46 Full-time Permanent Employees at the Project Location (Employment Increment of 5), 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 January 27, 2009 to be considered eligible project costs. All disbursements must be requested by April 1, 2013.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$30,000, 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

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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	36
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A	B
Reporting Date	Employment Goals
February 1, 2012	36+X+Y
February 1, 2013	36+X+Y
February 1, 2014	36+X+Y
February 1, 2015	36+X+Y

X = Grantee's Employment Increment that will be the basis of the Initial Disbursement of the Grant as described in section 5 above (i.e. X=5, and Employment Goals shall equal [36 + X = 41] 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 5 above (i.e. Y=5, and Employment Goals shall equal [36 + X + Y = 46] 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.

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Statutory Basis – Empire State Economic Development Fund:

1. The 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 36 and create 10 new jobs.
2. The project would be unlikely to take place in New York State without the requested assistance.
ESD assistance is needed to fill a financing gap.
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 \$468,789, which exceed the cost to the State.
4. The requirements of Section 10(g) of the Act are satisfied.
See cover memo.