FOR CONSIDERATION
November 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Solvay (Onondaga County) – Crucible Industries Working Capital – Empire State Economic Development Fund – General Development Financing (Working Capital Loan)

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

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General Project Plan

I. Project Summary

Borrower: Crucible Industries LLC

ESD* Investment: A working capital loan of up to $5.33 million to be used for asset acquisition costs associated with the purchase of the Crucible Specialty Metals plant in Onondaga County.

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

Project Location: 575 State Fair Boulevard, Solvay, Onondaga County

NYS Empire Zone (or equivalent): Onondaga County Empire Zone (application submitted October 1, 2009, certification pending)

Proposed Project: The sale of the Crucible Specialty Metals plant in Solvay to a newly formed company, Crucible Industries LLC.

ESD Incentive Offer Accepted: October 7, 2009

Project Completion: October 2009

Number of Employees at Project Location:		
	Initial employment (at time of ESD Incentive Offer):	120*
	Current employment level:	40*
	Minimum employment on January 1, 2011:	170

* Employees of Crucible Materials Corporation at the Specialty Metals Division in Solvay to be retained by Crucible Industries LLC.

Security:	Second lien on Inventory
Borrower:	William Lester, CFO 575 State Fair Boulevard Solvay, NY 13209 Phone: 315-487-4111 Fax: 315-484-9014
Anticipated Appropriation Source:	Empire State Economic Development Fund ("EDF")
ESD Project No.:	W923

Project Team:	Originator:	James Fayle
	Project Management	Meg Paskins
	Legal	Lawrence Gerson
	Finance	Ross Freeman
	Environmental	Soo Kang
	Affirmative Action	Helen Daniels

II. Project Cost and Financing Sources

Financing Uses	Amount
Asset Acquistion	$8,000,000
Working Capital	16,000,000
Soft costs	650,000
Total Project Costs	$24,650,000

Financing Sources	Amount	Percent	Rate/Term/Lien
ESD-Loan (W894-Upstate Regional) Blueprint Fund) [1]	$2,670,000	11%	[2]
ESD- Working Capital Loan (W923-EDF)	5,330,000	22%	[3]
ESD – Working Capital Grant (W903-EDF) [4]	1,500,000	6%	
Wells Fargo Line of Credit	7,150,000	29%	[5]
Company Equity	8,000,000	32%	
Total Project Financing	$24,650,000	100%	

[1] Approved at the October 22, 2009 Upstate ESDC Directors meeting.

[2] 4% interest rate (increasing to P+2% for any year in which baseline employment goals are not met)/ 3-year term/second lien on machinery and equipment. Repayment of interest only with principal due in full on the 36th month.

[3] 4% interest rate (increasing to P+2% for any year in which baseline employment goals are not met)/ 3-year term/second lien on inventory. Repayment of interest only with principal due in full on the 36th month.

[4] To be presented to the Directors at a later date.

[5] Crucible Industries LLC is in the process of securing a $25 million working capital line of credit (initial draw down of $7.15 million) with Wells Fargo (expected to close November 2009). The line of credit will have a 3-year term with an option to extend/interest rate of Libor +4/5%/ to be secured by accounts receivable/inventory/machinery and equipment.

III. Project Description

A. Background

Crucible Specialty Metals, a division of Crucible Materials Corporation ("Crucible"), had been a manufacturer of specialty steel products located in Central New York ("CNY") for over 130 years. During that time, the CNY plant, located on 70 acres with a total square footage of over 1 million square feet, employed hundreds of workers including members of the United Steelworkers of America. Crucible's other divisions included its compaction metals division in Oakdale, Pennsylvania; research division in Pittsburgh, Pennsylvania; and its service center division with 12 locations.

During the fourth quarter of 2008 and continuing into 2009, sales levels took a significant decline especially in the automotive and aerospace market segments. Sales declines rapidly approached 40% compared to prior periods, putting significant liquidity pressure on Crucible. In the current financial market, access to further credit and liquidity were not available and on May 6, 2009, Crucible filed for Chapter 11 bankruptcy protection. Manufacturing operations began to be phased out and shut down and the creditors began liquidation.

In late September 2009, the US Bankruptcy Court judge approved the break up of Crucible, approving the sales of its assets to companies in Pennsylvania and Ohio. Crucible's compaction metals facility and research divisions were approved for sale to Allegheny Technologies Inc. in Pittsburgh for $40.9 million. The Crucible Specialty Metals plant in Solvay, New York was approved for sale to Crucible Industries LLC ("Crucible Industries" or the "Company") for $8 million. Crucible Industries is a new company formed by Jack Jankovic, head of JP Industries Inc., a private investment group based in Cleveland, Ohio.

The owners of Crucible Industries have past experience in operating similar manufacturing facilities throughout the US and their intent is to re-start the CNY steel plant's manufacturing operation. A minimum of 120 workers will be brought back initially, with an expected increase of 50 additional jobs in the next year, bringing employment to at least 170 by January 2011.

The expected cost to recapitalize the operation is approximately $24.65 million. Crucible Industries is providing equity capital of $8 million to support equipment improvements, capital expenditures and general working capital needs. It is also in the process of securing a $25 million revolving line of credit with Wells Fargo; however, the borrowing base is expected to initially secure approximately $7.15 million of available liquidity, which leaves a financing gap of $9.5 million.

In an effort to assist Crucible Industries with continuing the Solvay plant's operations and preserving employment, ESD made an offer of up to $9.5 million in assistance to Crucible Industries, which was accepted on October 7, 2009. The offer consisted of up to $8 million in loans and a $1.5 million working capital grant. The $8 million in loans, to be used for asset acquisition costs, are comprised of a $2.67 million capital loan from the Upstate Regional Blueprint Fund and a $5.33 working capital loan from EDF. The $1.5 million EDF working capital grant will assist with energy costs over the first three years of operation. The $2.67 million loan from the Upstate Regional Blueprint Fund was approved by the Upstate ESDC Directors at their October 22, 2009 meeting. The $1.5 million EDF working capital grant will be presented to the ESD Directors at a later date.

The Directors have been provided with a confidential finance memo for this project.

B. The Project

The project involves the purchase of the key assets of Crucible's specialty steel plant including real estate, machinery, equipment, inventory and intellectual property as well as funds required for equipment improvements, capital expenditures and general working capital needs with the intent of re-starting and revitalizing the steel products manufacturing operation. The $8 million in loans from NYS ($2.67 million from the Upstate Regional Blueprint Fund and $5.33 million from EDF) will be allocated toward the asset acquisition portion of the project. The $1.5 million working capital grant will be used to reimburse Crucible Industries for a portion of energy costs during the first three years of operation.

The United Steel Workers of America approved a collective bargaining agreement on October 9, 2009 with the new owners. The initial expectation is to re-start manufacturing operations in November with the goal of reaching 120 jobs by the end of December 2009.

C. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 2% of the $5,330,000 working capital loan ($106,600) half of which shall be rebated at time of closing. In addition, the Company will reimburse ESD for all out-of-pocket expenses incurred in connection with the project including costs associated with an assessment of asset value by a third party acceptable to ESDC.

2. The Company will demonstrate no material adverse change in its financial condition prior to closing.

3. The Company or the Company's owners 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 loan disbursement but not before Empire Zone application approval, 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 Boprrower'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 Borrower to other employees with comparable rank and duties; or (b) two part-time, permanent, private-sector employees on Borrower'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 Borrower to other employees with comparable rank and duties.

5. ESD may reallocate the project funds to another form of assistance, at an amount no greater than $5,330,000, 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.

6. In consideration for the making of the Loan, Borrower will achieve the Employment Goals set forth in column C of the table below. If the number (for the preceding calendar year) of Borrower's Full-time Permanent Employees, as defined above, as of each reporting date set forth in column B of the table below, is less than eighty-five percent (85% of the Employment Goal set forth in column B), ESD reserves the right to raise the interest rate on the loans to prime plus 2% at its discretion. The Borrower'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	120

A	B
Reporting Date	Employment Goals
February 1, 2010	120
February 1, 2011	170
February 1, 2012	170
February 1, 2013	170
February 1, 2014	170
February 1, 2015	170

7. The ESD loan will be disbursed upon documentation of the asset acquisition as evidenced by a copy of the deed of sale and such other documentation as ESD may reasonably require, including evidence of the expenditure of approximately $8.65 million in asset acquisition costs (value to be ascertained by a third party acceptable to ESD), documentation of the employment of at least 120 Full-time permanent employees at the project location, and verification of participation of other financing sources, assuming that all project approvals have been completed and funds are available.

8. ESD will take a second lien on inventory. Total debt not to exceed 90% of acquisition value.

9. The Company will submit to ESD annual audited financial statements and quarterly internal financial statements certified by an officer of the Company.

10. The Company may not make any distributions/dividends in an amount in excess of federal, state, and local income taxes payable by members of the Company at statutory tax rates during the term of the loan without ESD's prior written approval.

11. At ESD's sole discretion, the term of the loans may be extended by up to 3 years, with principal to be amortized fully over the term of the extension.

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, Crucible Industries will re-start the steel plant's operation which was shut down due to bankruptcy proceedings. The Company will bring back 120 jobs initially. In addition, Crucible Industries will create 50 new jobs.

2. <u>The proposed project would be unlikely to take place in New York State without the requested assistance.</u>
Without ESD assistance, this project could not have taken place as a significant funding gap would have prevented Crucible Industries from acquiring the Solvay plant.

3. <u>The project is reasonably likely to accomplish its stated objectives and the likely benefits of the project exceed costs.</u>

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 $15,660,219;
- Fiscal cost to NYS government is estimated at $9,446,735;
- Project cost to NYS government per direct job is $74,804;
- Project cost to NYS government per job (direct plus indirect) is estimated at $28,719;
- Ratio of project fiscal benefits to costs to NYS government is 1.66:1;
- Fiscal benefits to all governments (state and local) are estimated at $21,201,041;
- Fiscal cost to all governments is $9,446,735;
- All government cost per direct job is $74,804;
- All government cost per total job is $28,719;
- The fiscal benefit to cost ratio for all governments is 2.24:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at $80,564,789, or $244,921 per job (direct and indirect);
- The economic benefit to cost ratio is 8.53:1;
- There is no construction activity related to this project;
- For every permanent direct job generated by this project, an additional 1.61 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. <u>The requirements of Section 10(g) of the Act are satisfied.</u>
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 for 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. Crucible Industries LLC agrees to use its best efforts 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

Resolution
New York State Map
Confidential Project Finance Memorandum
Cost-Benefit Analysis

November 19, 2009

Solvay (Onondaga County) – Crucible Industries Working Capital – Empire State Economic Development Fund – General Development Financing (Working Capital Loan) – 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 Loan and to Take Related Actions

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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 Crucible Industries Capital – Empire State Economic Development Fund – General Development Financing (Working Capital Loan) 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 Chairman and Chief Executive Officer-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Crucible Industries LLC a loan for a total amount not to exceed Five Million Three Hundred Thirty Thousand Dollars ($5,320,000) 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 loan, and each of them hereby is, authorized to take such actions and make such modifications to the terms of the loan or collateral securing the loan as he or she may deem necessary or appropriate in the administration of the loan; 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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