

FOR CONSIDERATION

October 21, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Hicksville (Nassau County) – Chesapeake Pharmaceutical Capital –
Downstate Revitalization Fund – Business Investment (Capital Grant)

REQUEST FOR: Findings and Determinations Pursuant to Sections 16-r and 10 (g) of
the Act; Authorization to Adopt the Proposed General Project Plan;
Authorization to Make a Grant and to Take Related Actions

General Project Plan

I. Project Summary

Grantee: Chesapeake Pharmaceutical Packaging Company, LLC
("Chesapeake" or the "Company")

ESD* Investment: A grant of up to \$106,000 to be used for a portion of the cost of the
acquisition 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: 325 Duffy Avenue, Hicksville, Nassau County

NYS Empire Zone: Nassau County Empire Zone

Proposed Project: The purchase of machinery and equipment associated with the
expansion of a product line.

ESD Incentive Offer Accepted: March 5, 2010

Project Completion: May 2010

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	90
Current employment level:	107
Minimum employment on January 1, 2014:	120

Grantee Contact: Robin Henfling, President North America
325 Duffy Avenue
Hicksville, NY 11801
Phone: (516) 277-8600
Fax: (718) 504-4927

Anticipated
Appropriation
Source:

Downstate Revitalization Fund

ESD Project No.: W978

Project Team:	Origination	Aida Reyes-Kuehn
	Project Management	Wai Shiu
	Affirmative Action	Laverne Poole
	Finance	Amit Nihalani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>	
Equipment	<u>\$530,000</u>	
Total Project Costs	<u>\$530,000</u>	
<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	<u>\$106,000</u>	20%
Company Equity	<u>424,000</u>	80%
Total Project Financing	<u>\$530,000</u>	<u>100%</u>

III. Project Description

A. Background

Chesapeake Pharmaceutical Packaging Company, LLC, was established in April 2009 by the holding company, Chesapeake US, Inc., and investors, Irving Place Capital Management LP and Oaktree Capital Management LP, when they acquired the brand and assets of the Chesapeake Corporation (the "predecessor company"), which filed for Chapter 11 bankruptcy protection in December 2008. The predecessor company has assumed a new name and

remained in Chapter 11, and its operations are now continued by Chesapeake Pharmaceutical Packaging Company, LLC.

Chesapeake is a manufacturer of roll labels, package inserts, individual folding cartons and specialty products for the pharmaceutical, healthcare, and food industries. Chesapeake has offices in New York and North Carolina, a total US workforce of 350, and annual sales of \$15 million. Its chief customers include Glaxo Smith Kline, Bristol-Myers Squibb, and Pfizer; its primary competitors are Pharmagraphics and CCL Industries.

One major product line at Chesapeake is “large format” package inserts. Growth in this market segment is driven by the increasing complexity of pharmaceutical products, and regulators and consumers demand to detail all of a drug’s ingredients, uses, side effects, liability languages, etc. on package inserts. The “large format” operation produces these increasingly large package inserts while maintaining the product’s package size.

The Company evaluated its growth strategy in April 2009, after assuming operations of the predecessor company. It planned to expand its “large format” operations and considered the options of expanding in Hicksville or relocating the operation to North Carolina, where Chesapeake maintains two facilities, both of which have excess capacity and 10 to 15% lower labor costs. North Carolina also provided incentives totaling \$1.4 million in state and local grants and tax credits.

Chesapeake applied for financial assistance through the competitive Downstate Revitalization Fund Request for Proposals in June 2009. Following review and recommendation by regional staff, ESD responded with a \$106,000 grant in order to entice the Company to remain in New York. Chesapeake accepted the offer in March 2010. Without ESD’s assistance, it is likely that Chesapeake would have moved its “large format” operations and transferred all 30 related product-line personnel to North Carolina. Additionally, the Company would likely have considered exercising the exit-clause in its Hicksville facility lease and shuttering its New York operations.

Previously, the predecessor company received grant approval from ESD in 2008 for a project to acquire machinery and relocate its facility. This project was terminated without disbursement in 2009 due to its bankruptcy filing.

B. The Project

Chesapeake completed the project in May 2010, which consisted of the acquisition and installation of “large format” printing equipment. As a result, Chesapeake is able retain all of its “large format” operation personnel in the Hicksville location. The Company currently has 107 full-time employees at the project location; it expects to increase employment to 120 jobs by 2014.

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 \$3,853,547;
- Fiscal cost to NYS government is estimated at \$106,000;

- Project cost to NYS government per direct job is \$1,348;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$823
- Ratio of project fiscal benefits to costs to NYS government is 36.35:1;
- Fiscal benefits to all governments (state and local) are estimated at \$6,965,747;
- Fiscal cost to all governments is \$106,000;
- All government cost per direct job is \$1,348;
- All government cost per total job is \$823;
- The fiscal benefit to cost ratio for all governments is 65.71:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$37,344,098, or \$289,858 per job (direct and indirect);
- The economic benefit to cost ratio is 352.30:1;
- There is no construction activity related to this project;
- For every permanent direct job generated by this project, an additional 0.65 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

(See Project Summary Benefit-Cost Evaluation attached for detail and definitions.)

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$106,000 capital grant (\$1,060) 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.
3. Chesapeake US, Inc. will guarantee the grant repayment obligation of its subsidiary, Chesapeake Pharmaceutical Packaging Company, LLC, 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 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.
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 \$106,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$53,000) upon completion of the project substantially as described in these materials, as evidenced by documentation of equipment costs totaling \$530,000, and documentation of the employment of at least 105 Full-time Permanent Employees at the Project Location (Employment Increment of 15), 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 (\$26,500) will be disbursed upon documentation of the employment of at least 115 Full-time Permanent Employees at the Project Location (Employment Increment of 10), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$26,500) will be disbursed upon documentation of the employment of at least 120 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. All disbursements must be requested by April 1, 2014. Expenditures incurred prior to the date of award announcement (January 8, 2010) cannot be reimbursed by grant funds.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$106,000, 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 (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	90
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A	B
Reporting Date	Employment Goals
February 1, 2012	$90+W+X+Y$
February 1, 2013	$90+W+X+Y$
February 1, 2014	$90+W+X+Y$
February 1, 2015	$90+W+X+Y$
February 1, 2016	$90+W+X+Y$

W = Grantee's Employment Increment that will be the basis of the First Disbursement of the Grant as described in section C.6 above (i.e. $W=15$, and Employment Goals shall equal $[90 + W = 105]$ 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 $W=0$.

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.6 above (i.e. $X=10$, and Employment Goals shall equal $[90 + W + X = 115]$ 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.6 above (i.e. $Y=5$, and Employment Goals shall equal $[90 + W + X + Y = 120]$ 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

This project is authorized under section 16-r of the New York State Urban Development Corporation Act (the "Act") and satisfies the eligibility criteria in the Act and the rules and regulations for the Downstate Revitalization Fund. No residential relocation is required as 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. 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

October 21, 2010

Hicksville (Nassau County) – Chesapeake Pharmaceutical Capital – Downstate Revitalization Fund – Business Investment (Capital Grant) – Findings and Determinations Pursuant to Sections 16-r 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 Chesapeake Pharmaceutical Capital -- Downstate Revitalization Fund – Business Investment (Capital Grant) Project (the “Project”), the Corporation hereby determines pursuant to Section 10 (g) of the New York State Urban Development Corporation Act of 1968, as amended (the “Act”), that 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 Chesapeake Pharmaceutical Packaging Company, LLC a grant for a total amount not to exceed One Hundred and Six Thousand Dollars (\$106,000) from the Downstate Revitalization 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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