Grantee: Infotonics Technology Center Inc. (“Infotonics” or the “Center”)

ESD Investment: A grant of up to $1,155,666 to be used for operating costs for Infotonics.

Project Location: 5450 Campus Drive, Canandaigua, Ontario County

NYS Empire Zone (or equivalent): N/A

Project Completion: March 31, 2010

Grantee Contact: Mary Jo Johnson, Director of Finance
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Phone: 585-919-3031  Fax: 585-919-3011

Project Team: Project Management  Edward Muszynski
Affirmative Action  Helen Daniels
Environmental  Soo Kang

Project Description:

Background
The Rochester Center of Excellence in Photonics and Optoelectronics, whose legal name is the Infotonics Technology Center Inc., was developed in 2002 as a public-private partnership between the state of New York (the “State”) and Kodak, Corning and Xerox, to develop a world-class research and development center in photonics and related technologies. The Center purchased and renovated a 120,000-square-foot former Xerox facility and expanded it to 140,000 square feet. The Center serves member companies and others developing prototypes and concept proofs utilizing the Center’s equipment, personnel and contract fabrication services.

Phase I of the project totaled $109 million, which included three years of research and administration. Project funding included grants of $8 million from the State’s Department of Economic Development for the purchase and renovation of the facility; $20 million administered by ESD from the Centers of Excellence program for machinery, equipment and renovations; $40 million in federal grants, $7 million of which was sub-granted to universities in the State to conduct research and development; and $41 million in equipment donations, in-kind services and cash from consortium members. The facility became operational in October 2004.

Phase II of the project involved the construction of a $15 million packaging facility, where micro electromechanical (“MEMs”) devices are “packaged,“ or integrated, with other components to form a larger system. Project funding of $14 million from ESD in combined
executive- and legislative-sponsored grants was approved in November 2006. The Center constructed the packaging lab, acquired key tools and opened the lab in November 2008. All but $935,905 of ESD’s $14 million grant has been disbursed.

The Center is into the fourth year of a five-year plan that includes a $150 million investment for a full-service contract fabrication and packaging facility that focuses on four major market segments: bio MEMS, optical MEMS, micro-fluidics, and green technology. The Federal Economic Development Administration ("EDA") has awarded the Center a $3 million grant, subject to matching funds being raised, to invest in an innovation and commercialization center where small companies will have access to tools and clean rooms.

Originally, the Center projected 120 employees by 2006; however, from 2004 to 2006, the Center’s member companies significantly reduced their use of the facility, a trend that accelerated further with the 2008 economic downturn. The Center subsequently modified its business plan to engage a more diversified client base. Current employment stands at 41 full-time and 5 part-time employees. Additionally, another 30 non-Infotonics employees are located at the project site. These are either spin-off companies served by Infotonics, service providers, consultants, or general tenants.

Previous ESD Working Capital Assistance
In addition to the State’s capital assistance to the Center, the Executive branch began, in fiscal year 2006-2007, to sponsor working capital grants for the Center’s operations, recognizing the need to fund key personnel and vital business development activities.

In December 2006, ESD’s Directors approved a working capital grant of $1,415,000 from the Aid to Localities – Center of Excellence budget (the “Budget”) to fund the Center’s operations for one year. Under this operating grant, the Center worked to: 1) develop a new strategic business plan, including the strengthening of the current board of directors with major MEMs industry representatives; 2) strengthen and formalize partnerships with key universities; 3) develop a capacity to collaborate with major MEMs industry partners, including the hiring of 13 new research, business development and grant project management staff; and 4) improve internal capabilities related to strategic marketing and communications, performance tracking and reporting. This grant was fully disbursed.

In April 2008 and May 2009, ESD’s Directors approved working capital grants of $1,179,166 and of $1,155,666, respectively, from the Budget to fund the Center’s operations for a second and third year. Under these operating grants, which have been fully disbursed, the Center has continued the four initiatives mentioned above. Infotonics is current on all bi-annual reporting as required by ESD.
Progress of Turnaround Plan
The Center faced serious challenges during 2008, prompting the Center’s Board of Directors to hire a chief restructuring officer (“CRO”) in June 2008. Under the direction of the CRO, the Center was reorganized and refinanced, and a series of financial systems were implemented to reduce and monitor operating expenses. The CRO also assisted Infotonics in closing on a $5.5 million high-interest bridge loan, of which $4 million was made available to allow the Center to clear approximately $2 million owed to creditors. The bridge loan provided less than one year’s worth of working capital to meet customer orders. In December 2008, the Center hired a new CEO with an extensive and highly successful industry background. With new business strategies and financial controls in place, the new leadership team has an aggressive plan for 2009-2010 that includes targeting the four market segments previously identified, as well as refinancing its loan at a lower interest rate.

Very recently, the Center reported that discussions with Genesee Regional Bank have resulted in a preliminary agreement to take out its high-interest bridge loan under a guarantee program sponsored by the U.S. Department of Agriculture. Other recent events of note include: actions to attain a Department of Defense (“DoD”) “classified” security clearance; potential development agreements with Texas Instruments and Raytheon; and discussions to bring certain “green technologies” pilot production to the project site. The Center currently has a business backlog of $3.1 million, representing customer purchase orders for services to be performed over the next four to eight months. The grant will free up needed cash to purchase raw materials and hire personnel to perform the work.

The Project
The Center’s operating budget was approximately $11 million for 2008, dropping to nearly $8 million in 2009, a level expected to be maintained in 2010. Major goals for Infotonics for 2009-2010 include the following:

- Drive overall revenue from $5.5 million (2008) to $7.7 million (2009). Based on second quarter results, the year-end forecast for 2009 revenues is currently at $7.7 million;
- Launch $2.1 million in federal research projects for the DoD and the Army Research Laboratory in alternative energy and smart prosthetics;
- Formalize a commercialization and research program with the University of Rochester for medical diagnostic products;
- Add up to 3 new technology positions to support the increase in output demand by the end of 2009 for a total of 49 full- and part-time employees (current number is 46);
- Develop a strategy for Infotonics under areas of Critical National Need for homeland security and alternative energy. The Center has submitted requests for $17 million over 3 projects;
• Increase the Center’s global brand awareness as a MEMs technology development leader. The Center is an active market participant in several national and international trade shows and has restructured new business development to focus on commercialization and pilot line manufacturing;
• Partner with the University of Rochester and High Tech Rochester (“HTR”) to invest a federal EDA grant on the campus to create an HTR development center;
• Implement ISO compliance;
• Refinance the existing asset-based bridge loan to a lower-cost term loan to eliminate the high-interest burden, and eliminate the foreclosure risks associated with the current loan;
• Develop a pilot line production relationship for SSL (solid state lighting) OLED application (an energy-efficient lighting technology) with the U.S. Department of Energy and private industry;
• Pursue NYSTAR’s Center for Advanced Technology request for proposal in conjunction with the University of Rochester’s Center for Sensor Technology;
• Sell or lease excess acreage at the Project Location; and
• Develop multi-shift operational capabilities.

Upon completion of the project, the Grantee will furnish a final report describing the impact and effectiveness of the project. Semi-annually thereafter, the Grantee will report project impact and performance measurements in a manner prescribed by ESD.

<table>
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<tr>
<th>Financing Uses</th>
<th>Amount</th>
<th>Financing Sources</th>
<th>Amount</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Personnel - Directors of Operations/Grant Writer/Engineers/Scientists/Other Technical</td>
<td>$495,000</td>
<td>ESD Grant</td>
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<td>Business Development &amp; Marketing</td>
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<td>Interest-Rate Reserve Fund as Required by Genesee Regional Bank</td>
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<td>Pre-purchase of Supplies and Materials for Grantee to Perform on Contracts</td>
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<tr>
<td>Total Project Costs</td>
<td>$1,155,666</td>
<td>Total Project Financing</td>
<td>$1,155,666</td>
<td>100%</td>
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Financial Terms and Conditions:

1. The Grantee will be obligated to advise ESD of a materially adverse change in its financial condition prior to disbursement.
2. Up to $1,155,666 will be disbursed to the Grantee upon documentation of eligible working capital project costs, assuming that all project approvals have been completed and funds are available. Payment will be made upon presentation to ESD of an invoice and such other documentation as ESDC may reasonably require. Expenses must be incurred on or after April 1, 2009 to be considered eligible project costs.

3. ESD may reallocate the project funds to another form of assistance, at an amount no greater than $1,155,666, for this project if ESD determines that the reallocation of the assistance would better serve the needs of the Grantee 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.

Statutory Basis – Aid to Localities – Centers of Excellence:
The project was authorized in the 2009-2010 New York State budget. No residential relocation is required as there are no families or individuals residing on the site.