

A. Arch Chemicals Capital (X034)

December 14, 2011

General Project Plan

Grantee: Arch Chemicals, Inc. (“Arch” or the “Company”)

ESD Investment: A grant of up to \$75,000 to be used for a portion of the cost of building renovations and the purchase of machinery and equipment.

Project Location: 100 McKee Road, Rochester, Monroe County

ESD Incentive Offer Accepted: April 30, 2010

Project Completion: June 2011

Number of Employees at Facility:

Initial employment at time of ESD Incentive Offer:	156
Current employment level:	154
Minimum employment on January 1, 2014:	160

Grantee Contact: Sam Narotsky, Plant Controller
100 McKee Road
Rochester, NY 14611
Phone: (585) 613-3712 Fax: (585) 436-2876

Project Team:

Origination	Kevin Hurley
Project Management	Edward Muszynski
Affirmative Action	Helen Daniels
Environmental	Soo Kang

Regional Council: The Finger Lakes Regional Council has been made aware of this item.

Project Description:

Background

Arch Chemicals is a global biocides manufacturer with nearly 3,000 employees worldwide. Biocides are chemical solutions that selectively destroy and control the growth of harmful microbes. The Company’s focus is on water treatment, preservation and protection for paints and building products, and various other health and hygiene applications. Arch has facilities in North and South America, Europe, Asia, Australia and Africa. The Company has 10 U.S. locations, including Rochester, New York. In October 2011, Arch became part of Lonza Group Ltd. (“Lonza”), a Swiss-based publicly traded company that is one of the world’s leading suppliers to the pharmaceutical, healthcare and life sciences industries. Arch retains its corporate identity and is an indirect wholly

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owned subsidiary of Lonza.

For a number of years, Arch had outsourced the blending of products to a contractor in Missouri and considered bringing the process in-house to its Rochester plant or its Brandenburg, KY plant. In order to reduce costs and make the project feasible in New York, the Company approached ESD for financial assistance. ESD offered a \$75,000 capital grant, which Arch accepted in April 2010. Without ESD's assistance, and additional help from the City of Rochester and Monroe County, the Company would not have been able to install this process in Rochester.

The Project

The Company installed a process for formulating its Proxel™ brand of products for the North American market. Arch renovated 3,600 square feet in its 83,000-square-foot Rochester facility, purchased and installed two media mills (a type of fluid mixing machine), a material handling system, a bulk bag unloading system, process piping and instrumentation. The project began in June 2010 and was completed in June 2011. The resulting cost savings will result in the retention of 156 jobs that were at risk and the creation of four new jobs by 2014.

Financing Uses	Amount	Financing Sources	Amount	Percent
Renovations	\$551,000	ESD Grant	\$75,000	7%
Machinery & Equipment	269,000	City of Rochester Grants	55,000	5%
Soft Costs	230,000	Prudential Capital Group-Loan*	300,000	29%
		Company Equity	620,000	59%
Total Project Costs	\$1,050,000	Total Project Financing	\$1,050,000	100%

* Loan with a 4% interest subsidy from Monroe County Industrial Development Corporation, which reduces the interest rate from 6.7% to 2.7% over the five-year term.

Financial Terms and Conditions:

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$75,000 capital grant (\$750) 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 any material or adverse changes in its financial condition prior to disbursement.
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

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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 \$75,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 66% of the grant (\$50,000) upon documentation of renovation/machinery and equipment project costs totaling \$1,050,000, and documentation of the employment of at least 156 Full-time Permanent Employees at the Project Location, assuming that all project approvals have been completed and funds are available;
 - b) a Second Disbursement of an amount equal to 34% of the grant (\$25,000) will be disbursed upon documentation of the employment of at least 160 Full-time Permanent Employees at the Project Location (Employment Increment of 4), provided Grantee is otherwise in compliance with program requirements;

Payment will be made upon presentation to ESD of an invoice and such other documentation as ESD may reasonably require. Expenses must be incurred on or after April 30, 2010, to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$75,000, 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	156
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A	B
Reporting Date	Employment Goals
February 1, 2013	156+X
February 1, 2014	156+X
February 1, 2015	156+X
February 1, 2016	156+X

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section 5 above (i.e. X=0 and Employment Goals shall equal [156 + X = 156] 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.

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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 156 employees, which were at risk. In addition, the Company will create four new jobs.
2. The project would be unlikely to take place in New York State without the requested assistance.
The Company considered locating a process in Rochester or in Brandenburg, KY. ESD's assistance helped to reduce costs and make the project 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 \$7,170,068, which exceed the cost to the State.
4. The requirements of Section 10(g) of the Act are satisfied.
See cover memo.