

FOR CONSIDERATION

December 16, 2010

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Congers (Rockland County) – ADH Health Products MAP Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)

REQUEST FOR: 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 Grant and to Take Related Actions

General Project Plan

I. Project Summary

Grantee: ADH Health Products, Inc. (“ADH” or the “Company”)

ESD* Investment: A grant of up to \$250,000 to be used for a portion of the cost of purchase 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: 215 N. Route 303, Congers, Rockland County

Proposed Project: Building improvements and purchase and installation of machinery and equipment to upgrade the manufacturing facility in order to maintain competitiveness and regulatory compliance.

ESD Incentive Offer Accepted: September 23, 2010

Project Completion: June 2011

Number of Employees at Project Location:

Initial employment at time of ESD Incentive Offer:	58
Current employment level:	58
Minimum employment through January 1, 2016:	58

Grantee Contact: Navin Advani, Director
 215 N. Route 303
 Congers, NY 10920
 Phone: (917) 940-7031
 Fax: (845) 268-2988

Anticipated
 Appropriation
 Source: Empire State Economic Development Fund

ESD Project No.: X210

Project Team: Origination Christopher St.Lawrence
 Project Management Javier Roman-Morales
 Affirmative Action Denise Ross
 Environmental Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Building Improvements	\$2,234,092
Machinery and Equipment	3,092,300
Training and Professionals	<u>250,000</u>
Total Project Costs	<u>\$5,576,392</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	\$250,000	4%	
TD Bank, N.A.	3,776,392	68%	4.64% 20 yrs/first lien on RE
Company Equity	<u>1,550,000</u>	<u>28%</u>	
Total Project Financing	<u>\$5,576,392</u>	<u>100%</u>	

III. Project Description

A. Background

ADH Health Products, Inc., was established in 1976 by Balram Advani for the manufacture of dietary supplements. Since 1972, it has operated a 40,000-square-foot, FDA-registered manufacturing facility in Congers, NY. ADH does not sell products directly to consumers nor does it own its own consumer brand; all revenues are generated by contract manufacturing and by private label services. In terms of geography, 75% of ADH's revenues are produced from domestic sales, while 25% are from exports. Major customers include Avon Products, Kinray Drug, Kibow Biotics, and Taam Teva, among others.

ADH's primary challenges are the regulatory changes affecting the nutrition industry and the increasingly competitive global industry driven by foreign manufactures based in lower-cost

countries. In response to industry needs and consumer demand, the FDA passed a Dietary Supplement Current Good Manufacturing Practices (“cGMPs”) in June 2007. The cGMPs regulate the manner in which dietary supplements are manufactured and imposed additional responsibility for the quality of the products. Manufacturers are now forced to abide by the cGMPs, which require significant capital investment for the average manufacturer. The regulations have caused consolidation amongst small dietary supplement manufactures and at the same time have created the opportunity for larger manufacturers to consolidate with smaller companies and/or to move operations to lower-cost nations like China.

The Company currently faces a variety of significant challenges caused by changing in industry and regulatory environments as well as limited financing capacity. Challenges are related to manufacturing inefficiencies and quality problems, regulatory changes and increased competition. In order to address those issues, ADH must upgrade and retrofit its manufacturing facility in order to increase capacity and output, improve production yields and decrease rework rates, identify production efficiencies, and implement new and enhanced quality assurance, control and procedures. The limited financing sources do not enable ADH to cover all of the required investments needed to achieve the outcomes necessary to remain competitive in the industry.

Manufacturing is the most significant wealth-creating and value-adding sector of the NYS economy outside of the New York City metropolitan area. The purpose of the ESD’s Manufacturing Assistance Program (“MAP”) is to encourage New York State manufacturers to invest in projects that substantially improve the competitiveness and productivity of their operations, thus increasing their long-term viability and ensuring the health of the state’s manufacturing economy.

ADH approached ESD in 2010 and requested assistance in order to continue operations in New York State. Without the MAP funds, the Company will be forced to close down operations, a loss of 58 full-time-permanent jobs, or building a new facility in Princeton, New Jersey, to take advantage of the State of New Jersey’s incentives. ESD determined the importance of this project and offered a \$250,000 MAP grant which was accepted on September 23, 2010. ESD assistance is essential in order to finance the remaining machinery and equipment expenditures not covered by the non-grant sources of financing, thereby retaining 58 full-time-permanent jobs in the Hudson Valley region.

B. The Project

The \$5.5 million project involves improvements to the 40,000-sq.-ft. manufacturing facility and the acquisition of machinery and equipment including: new mixers double-cone blenders and handling equipment; table presses; encapsulation machines and machine parts; coating pans including spray nozzles and pumps and variable frequency drive speed controls; instrumentation equipment; a fully automated bottle filling line among other equipment dictated by the respective departments. Additional upgrades include installation of new HVAC and air handlings units, facility renovation and demolition to accommodate new equipment, and fabrication of platforms with an elevating mechanism. The project will result in increased production efficiency and will allow the Company to become more competitive and is expected to be completed by June 2011.

C. MAP Project Findings and Outcomes

This project qualifies as a Manufacturing Assistance Program project because the Company i) is a resident New York State manufacturer with between 50 and 1,000 employees; ii) exports at least 30% of its production beyond its region or provides at least 30% of its production to a manufacturer that exports beyond the Company's region; and iii) is making a substantial investment of at least \$1,000,000 in order to improve its competitiveness and productivity and thereby enhance its long-term viability in the State of New York.

The project is expected to produce the following measurable outcomes for the Company:

Primary Outcome(s): Increase production from 278,883,000 to 445,200,000 tablets and capsules annually.

Total estimated value of competitiveness and project outcomes: \$6,500,000 annually

D. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$250,000 capital grant (\$2,500) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material adverse change in its financial condition prior to disbursement.
3. The Company will be required to contribute a minimum of 10% of the total project cost in the form of equity contributed after the Company's 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 \$250,000 will be disbursed to the Grantee in two installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$125,000) will be disbursed upon documentation of project costs of at least \$2,600,000, and documentation of the employment of at least 58 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 50% the grant (\$125,000) will be disbursed upon documentation of project expenditures of an additional \$2,700,000 (cumulative capital investment of at least \$5,030,000), documentation of production of 159,000,000 tablets of commercially acceptable quality dietary supplements in a six-month period as verified by a letter by the Plant Manager and certified by an independent Certified Public Accountant, and employment of at least 58 Full-time Permanent Employees, provided Grantee is otherwise in compliance with program requirements.
6. 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 September 23, 2010, to be considered eligible project costs.
7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$250,000 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 percent 85% of the Employment Goal set forth in Column B (an "Employment Shortfall"), then upon demand by ESDC, Grantee shall be obligated to repay to ESDC 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	58
---------------------	----

A	B
Date	Employment Goals
February 1, 2012	58
February 1, 2013	58
February 1, 2014	58
February 1, 2015	58
February 1, 2016	58

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, the Company will make significant investment in its manufacturing facility, thereby ensuring its continued viability and the retention of 58 employees. In addition, this project will help make the Company more competitive, and thus increase the economic viability of the state’s manufacturing industry.

2. The proposed project would be unlikely to take place in New York State without the requested assistance.

Without ESD assistance, this project would likely have been relocated to facility in Princeton, New Jersey, to take advantage of incentives offered by the state of New Jersey.

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, the following are anticipated project impacts (dollar values are present value):

- Fiscal benefits to NYS government from the project are estimated at \$2,050,647;
- Fiscal cost to NYS government is estimated at \$250,000;
- Project cost to NYS government per direct job is \$7,067;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$2,712;
- Ratio of project fiscal benefits to costs to NYS government is 8.20:1;
- Fiscal benefits to all governments (state and local) are estimated at \$3,663,686;
- Fiscal cost to all governments is \$250,000;
- All government cost per direct job is \$7,067;
- All government cost per total job is \$2,712;
- The fiscal benefit to cost ratio for all governments is 14.65:1;

- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$19,587,126, or \$212,468 per job (direct and indirect);
- The economic benefit to cost ratio is 78.35:1;
- Project construction cost is \$2,234,092 which is expected to generate 16 direct job years and 8 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 1.63 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 2 years.

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

4. The requirements of Section 10(g) of the Act are satisfied.

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 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 Grantee 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
Cost-Benefit Analysis

December 16, 2010

Congers (Rockland County) – ADH Health Products MAP Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – 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 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 ADH Health Products MAP Capital -- Empire State Economic Development Fund – General Development Financing (Capital Grant) 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 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 ADH Health Products, Inc. a grant for a total amount not to exceed Two Hundred and Fifty Thousand Dollars (\$250,000) 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 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.

* * *