

FOR CONSIDERATION

November 21, 2011

TO: The Directors

FROM: Kenneth Adams

SUBJECT: Sanborn (Western New York Region – Niagara County) – Edwards Vacuum 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; Determination of No Significant Effect on the Environment

General Project Plan

I. Project Summary

Grantee: Edwards Vacuum, Inc. (“Edwards” or the “Company”)

ESD* Investment: A grant of up to \$500,000 to be used for a portion of the cost of machinery and equipment and leasehold improvements.

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

Project Location: 6400 Inducon Drive, Sanborn, Niagara County

Proposed Project: Leasehold improvements, acquisition and installation of new machinery and equipment, training and soft costs associated with the relocation and expansion of facility operations.

ESD Incentive Offer Accepted: October 10, 2010

Project Completion: March 2012

Number of Employees at Project Location**:

Initial employment at time of ESD Incentive Offer: 100
Current employment level: 132
Minimum employment on January 1, 2014: 128

** May include up to 10 Full-time Contract Employees

Grantee Contact: Michael P. Brown, General Manager, Systems Operations
3279 Grand Island Boulevard
Grand Island, NY 14072
Phone: (716) 773-7552, ext. 1225
Fax: (866) 435-9213

Anticipated
Appropriation

Source: Empire State Economic Development Fund

ESD Project No.: X195

Project Team: Origination Will Welisevich
Project Management Jean Williams
Affirmative Action Helen Daniels
Finance Amit Nihalani
Environmental Soo Kang

Regional Council: The Western New York Regional Council has been made aware of this item.

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Leasehold Improvements	\$ 505,000
Machinery & Equipment	272,000
Employee Training Costs	50,000
Relocation/Moving	410,000
Soft Costs	<u>275,000</u>

Total Project Costs \$1,512,000

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>
ESD-Grant	\$ 500,000	33%
Company Equity	<u>1,012,000</u>	<u>67%</u>
Total Project Financing	<u>\$1,512,000</u>	<u>100%</u>

III. Project Description

A. Background

Edwards, established as an independent business in 2007, has been designing and manufacturing high technology vacuum equipment for the last forty years as Edwards High Vacuum. The Company, a subsidiary of Edwards Group Limited (UK), is a leading global supplier of integrated solutions for the manufacture of semiconductors, flat panel displays, LEDs and solar cells and a leader in vacuum technology for industrial, pharmaceutical, chemical, scientific, process, glass coating and food packaging industries. The Company's innovative oil-free 'dry' vacuum and abatement technology enables end-users to produce a wide variety of products including coffee, computers, steel, and solar panels. It also offers extensive applications knowledge, pre-sale product support, post-sale support services as well as technical training courses.

The Company, headquartered in England, employs 3,000 people globally and has manufacturing facilities in Grand Island and Niagara Falls, NY; Tewksbury, MA; and Hillsboro, OH. Primary competitors include Shimadzu (Japan), Ebara Technologies (Japan), and Oerlikon Leybold (Cologne, Germany). Major customers include Intel (Santa Clara, CA), IBM (Armonk, NY), and Kayex (Rochester, NY).

To be in closer proximity to its major customers, Edwards announced plans to relocate a significant portion of its global manufacturing, approximately 360,000 square feet, from the United Kingdom and United States to core manufacturing locations in the Czech Republic and South Korea. In 2007, Edwards closed a manufacturing facility in Philadelphia, moving standard pump production to the Czech Republic and has recently consolidated U.S. service centers to Nogales, Mexico.

In 2010, Edwards advised ESD that it had plans to consolidate its East Coast operations and administrative functions located in Massachusetts and New York. The leased Grand Island and Niagara Falls facilities were already operating at full capacity and could not accommodate expanded operations. The Company considered consolidating and relocating the three facilities to a larger leased facility in Erie or Niagara County. The Company also contemplated expanding operations at an existing facility in South Korea or the Czech Republic. New York was at a disadvantage as South Korea and Czech Republic were in close proximity to the Company's key customers. Additionally, significant subsidies including \$6 million for new buildings and equipment, rent-free land, training and recruitment grants, lower tax rates and tax holidays on incremental revenues were offered to Edwards. On September 30, 2010, ESD provided Edwards with an incentive proposal consisting of a \$500,000 capital grant and \$515,900 in Excelsior Program benefits. The Company accepted the incentive proposal in October 2010, executed a long-term lease and expects to complete the consolidation project in Niagara County by the end of the year. As a result, 100 jobs will be retained and 28 new jobs will be created by January 1, 2014, which would have been relocated out of state.

B. The Project

The \$1.5 million project involves leasehold improvements including crane installation, fit out for manufacturing, and office and system test areas. The project also includes acquisition and installation of new machinery and equipment including racking, computers, furniture, security and fire suppression systems, training, and relocation costs. The project, which is scheduled for completion in March 2012, will improve operational efficiencies and responsiveness to customer requirements, reduce overhead costs, and position Edwards to be a key supplier for semiconductor companies in New York. The Company has already created 32 jobs.

C. Financial Terms and Conditions

1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the \$500,000 capital grant (\$5,000) and reimburse ESD for all out-of-pocket expenses incurred in connection with the project.
2. The Company will demonstrate no material or adverse changes in its financial condition prior to disbursement.
3. Edwards Group Limited will guarantee the grant repayment obligation of its subsidiary, Edwards Vacuum, Inc., in the event of an Employment Shortfall or other default, as defined in these materials or the Grant Disbursement Agreement.
4. 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.
5. Prior to disbursement, the Company must employ at least the number of Full-time Permanent and Contract 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. Full-time Contract Worker shall mean a person who has worked as an independent contractor at the Project Location for a minimum of thirty-five hours per week for not less than four consecutive

weeks and who receives an IRS form 1099.

6. Up to \$500,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$250,000) upon completion of the project as described in these materials, including an executed lease for the new facility; documentation of project expenditures of \$1.5 million of which \$272,000 must be for the acquisition and installation of new machinery and equipment and at least \$500,000 must be for additional eligible capital expenses (aggregate total of \$772,000 in capital expenditures); documentation of the employment of at least 100 Full-time Employees (at least 90 of which must be Permanent Employees and up to 10 may be Contract 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 25% of the grant (\$125,000) will be disbursed upon documentation of the employment of at least 114 Full-time Employees (at least 104 of which must be Permanent Employees and up to 10 may be Contract Employees) at the Project Location (Employment Increment of 14), provided Grantee is otherwise in compliance with program requirements;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$125,000) will be disbursed upon documentation of the employment of at least 128 Full-time Employees (at least 118 of which must be Permanent Employees and up to 10 may be Contract Employees) at the Project Location (Employment Increment of 14), 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. Expenditures must be incurred on or after October 10, 2010, to be considered eligible project costs. All disbursements must be requested by April 1, 2014.

7. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$500,000, 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 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	100***
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A	B
Reporting Date	Employment Goals***
February 1, 2013	100+X+Y
February 1, 2014	100+X+Y
February 1, 2015	100+X+Y
February 1, 2016	100+X+Y

*** May include up to 10 Full-time Contract Employees

X = Grantee's Employment Increment that will be the basis of the Second Disbursement of the Grant as described in section C.5 above (i.e. X=14, and Employment Goals shall equal $100 + X = 114$] 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.5 above (i.e. Y=14, and Employment Goals shall equal $[100 + X + Y = 128]$ 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

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 maintain its employment level of 90 Full-time Permanent jobs and 10 Full-time Contract jobs and create 28 new jobs by January 1, 2014.

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

Without ESD assistance, the project would have taken place in an existing facility in Korea or the Czech Republic, resulting in the loss of 100 New York State jobs.

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 \$6,162,413;
- Fiscal cost to NYS government is estimated at \$500,000;
- Project cost to NYS government per direct job is \$4,963;
- Project cost to NYS government per job (direct plus indirect) is estimated at \$2,015;
- Ratio of project fiscal benefits to costs to NYS government is 12.32:1;
- Fiscal benefits to all governments (state and local) are estimated at \$10,524,406;
- Fiscal cost to all governments is \$500,000;
- All government cost per direct job is \$4,963;
- All government cost per total job is \$2,015
- The fiscal benefit to cost ratio for all governments is 21.05:1;
- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$55,158,982, or \$222,259 per job (direct and indirect);
- The economic benefit to cost ratio is 110.32:1;
- Project construction cost is \$915,000, which is expected to generate nine direct job years and six indirect job years of employment;
- For every permanent direct job generated by this project, an additional 1.47 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is one year.

(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, although the funding of this project by ESD may constitute an “action” as defined by the State Environmental Quality Review Act, the project itself has been substantially completed. ESD’s action in the funding decision will not alter the adverse environmental impacts, if any, of the project as completed. ESD staff accordingly believes that funding the project will not have any significant adverse impacts on the environment.

VI. Affirmative Action

ESD’s Non-Discrimination and Affirmative Action policy will apply. The client 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
Benefit-Cost Analysis

November 21, 2011

Sanborn (Western New York Region – Niagara County) – Edwards Vacuum 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 Edwards Vacuum 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 President 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 President 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 President and Chief Executive Officer of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Edwards Vacuum, Inc. a grant for a total

amount not to exceed Five Hundred Thousand Dollars (\$500,000) 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 President 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 President 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 President and Chief Executive Officer 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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November 21, 2011

Sanborn (Western New York Region – Niagara County) – Edwards Vacuum Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) – Determination of No Significant Effect on the Environment

RESOLVED, that based on the material submitted to the Directors with respect to the Edwards Vacuum Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant) Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

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