FOR CONSIDERATION
September 14, 2010

TO: The Directors
FROM: Dennis M. Mullen
SUBJECT: Wawayanda (Orange County) – Medline Capital – Empire State Economic Development Fund – General Development Financing (Capital Grant)
REQUEST FOR: Findings and Determinations Pursuant to Sections 16-h 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: Medline Industries, Inc. (“Medline” or the “Company”)

ESD* Investment: A grant of up to $250,000 to be used for a portion of the cost of the 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: 3301 Route 6, Wawayanda, Orange County

NYS Empire Zone (or equivalent): N/A

Proposed Project: Construction and equipping of a new 505,000-square-foot Northeast distribution center.

ESD Incentive Offer Accepted: December 19, 2006 (initial); April 29, 2008 (revised)

Project Completion: July 2009
Number of Employees at Project Location:
- Initial employment at time of ESD Incentive Offer: 0
- Current employment level: 88
- Minimum employment through January 1, 2013: 69

Grantee Contact: Gregory A. Orlando, Director of Tax
One Medline Place
Mundelein, IL 60060
Phone: (847) 643-4603
Fax: (847) 837-2756

Anticipated Appropriation Source: Empire State Economic Development Fund

ESD Project No.: U924

Project Team:
- Origination: Paul Taxter
- Project Management: Gregory E. Fitzgerald
- Affirmative Action: Denise Ross
- Finance: Jonevan Hornsby
- Environmental: Soo Kang

II. Project Cost and Financing Sources

<table>
<thead>
<tr>
<th>Financing Uses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Acquisition</td>
<td>$8,658,900</td>
</tr>
<tr>
<td>Infrastructure/Site Work</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Machinery Acquisition</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Construction</td>
<td>21,106,600</td>
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<tr>
<td>Training and Soft Costs</td>
<td>550,000</td>
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</tbody>
</table>

Total Project Costs: $34,815,500

<table>
<thead>
<tr>
<th>Financing Sources</th>
<th>Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESD-Grant</td>
<td>$250,000</td>
<td>1%</td>
</tr>
<tr>
<td>Company Equity</td>
<td>34,565,500</td>
<td>99%</td>
</tr>
</tbody>
</table>

Total Project Financing: $34,815,500 100%
III. Project Description

A. Background
Medline Industries Inc., founded in 1966, is America’s largest privately-held national manufacturer and distributor of health care supplies and services. Currently, Medline is headquartered in Mundelein, Illinois, has 34 distribution centers to deliver products, ten manufacturing facilities throughout North America and sells in every state and in more than twenty countries. The Company has 20 product divisions and manufactures and/or distributes more than 100,000 products to the healthcare market. The Company’s major product lines include exam gloves, operating room kits, textiles (i.e. scrubs, uniforms, and gowns), patented plastic utensils and respiratory products. Medline’s main competitors are other large distributors of healthcare supplies such as: Cardinal Health, Owens, and Minor and McKesson. Over the past five years, the Company has become the fastest growing distributor of medical and surgical supplies, serving over 250 major hospitals and healthcare systems.

Due to this rapid growth, the Company determined that in order to fulfill current market demands it needed to increase its distribution capabilities in the Northeast region. In 2006, Medline approached ESD for assistance in financing the construction and equipping of a Northeast distribution center in New York State. Medline was also considering several existing sites in Pennsylvania, Virginia and Massachusetts. To induce the Company to locate in New York State, ESD offered Medline a capital grant of $250,000 on December 19, 2006. The offer was updated in 2008 to reflect a change in the project site to Wawayanda, Orange County. Medline decided to locate in New York because of ESD’s grant and the state’s talented workforce and unparalleled performance. Without ESD’s assistance, Medline would have likely expanded its operation in Pennsylvania.

B. The Project
In September 2008, Medline acquired over 61 acres in Wawayanda, Orange County and began construction of a 499,762-square-foot, state-of-the-art distribution center. The facility was completed in July 2009, and has been serving as Medline’s Northeast hub. Orange County’s strategic location and access to the Northeast’s interstate highways allows Medline premium access to its major customers in the area. ESD’s grant will be used for a portion of the purchase and installation of new machinery and equipment. As a result of this project, the Company has been able to maximize employee productivity, as well as decrease its delivery times due to proximity to its marketplace. Medline has already hired 88 employees, surpassing its employment commitment.

Due to the competitive nature of its business, Medline has requested that its financial statements remain confidential. Upon request, the Company did submit information concerning its operating results and financial condition. A review by ESD staff found the Company to be growing, profitable and financially well-structured.

C. Financial Terms and Conditions
1. Upon execution of the grant disbursement agreement, the Company shall pay a commitment fee of 1% of the $250,000 ($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 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.

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 three installments as follows:
   a) an Initial Disbursement of an amount equal to 50% of the grant ($112,500) upon completion of the project substantially described in these materials, as evidenced by a certificate of occupancy, documentation of the purchase and installation of at least $1 million in machinery and equipment, and documentation of the employment of at least 9 Full-time Permanent Employees at the Project Location (Employment Increment of 9), 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 ($56,250) will be disbursed upon documentation of the employment of at least 39 Full-time Permanent Employees at the Project Location (Employment Increment of 30), provided Grantee is otherwise in compliance with program requirements;
   c) a Third Disbursement of an amount equal to 25% of the grant ($56,250) will be disbursed upon documentation of the employment of at least 69 Full-time Permanent Employees at the Project Location (Employment Increment of 30), 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. Expenses must be incurred on or after April 30, 2008 to be considered eligible project costs. Disbursement may be requested simultaneously. All disbursements must be requested by April 1, 2011.

6. 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.
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.

<table>
<thead>
<tr>
<th>Baseline Employment</th>
<th>0</th>
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<tbody>
<tr>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Reporting Date</td>
<td>Employment Goals</td>
</tr>
<tr>
<td>February 1, 2012</td>
<td>X+Y+Z</td>
</tr>
<tr>
<td>February 1, 2013</td>
<td>X+Y+Z</td>
</tr>
</tbody>
</table>

X = Grantee's Employment Increment that will be the basis of the Initial Disbursement of the Grant as described in section C.5 above (i.e. X=9, and Employment Goals shall equal [0 + X = 9] if the Initial Disbursement is made, in the year such disbursement is made and for each year thereafter). If the Initial Disbursement has not yet been made then X=0.

Y = 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. Y=30, and Employment Goals shall equal [X + Y = 39] 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 Y=0.

Z = 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. Z=30, and Employment Goals shall equal [X + Y + Z = 69] 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 $Z=0.$

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 has established a new facility in New York State and will create 69 new jobs.

2. The proposed project would be unlikely to take place in New York State without the requested assistance. The Company considered locating its operations in Pennsylvania, Virginia or Massachusetts. 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, the following are anticipated project impacts (dollar values are present value):
   - Fiscal benefits to NYS government from the project are estimated at $2,884,282;
   - Fiscal cost to NYS government is estimated at $670,800;
   - Project cost to NYS government per direct job is $16,803;
   - Project cost to NYS government per job (direct plus indirect) is estimated at $8,605;
   - Ratio of project fiscal benefits to costs to NYS government is 4.30:1;
   - Fiscal benefits to all governments (state and local) are estimated at $10,385,558;
   - Fiscal cost to all governments is $1,864,924;
   - All government cost per direct job is $46,715;
   - All government cost per total job is $23,924;
   - The fiscal benefit to cost ratio for all governments is 5.57:1;
   - Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at $32,397,380, or $415,612 per job (direct and indirect);
   - The economic benefit to cost ratio is 17.37:1;
   - Project construction cost is $25,156,600 which is expected to generate 181 direct job years and 89 indirect job years of employment;
   - For every permanent direct job generated by this project, an additional 0.95 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.)

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

The Town of Wawayanda Planning Board, as lead agency, has completed an environmental review of the proposed project, pursuant to the requirements of the State Environmental Quality Review Act (“SEQRA”) and the implementing regulations of the New York State Department of Environmental Conservation. This review found the project to be a Type I Action, which would not have a significant effect on the environment. The lead agency issued a Negative Declaration on September 12, 2007. ESD staff reviewed the Negative Declaration and supporting materials and concurs. It is recommended that the Directors make a Determination of No Significant Effect on the Environment.

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
Confidential Project Finance Memorandum
Cost-Benefit Analysis
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 Medline 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 Medline Industries Inc. a grant for a total amount not to exceed Two Hundred and Fifty Thousand ($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.

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RESOLVED, that based on the material submitted to the Directors with respect to the Medline Capital Project, the Corporation hereby determines that the proposed action will not have a significant effect on the environment.

* * *