

FOR CONSIDERATION

November 19, 2009

TO: The Directors

FROM: Dennis M. Mullen

SUBJECT: Yonkers (Westchester County) – Kimber Manufacturing 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: Kimber Mfg., Inc. (“Kimber” or the “Company”)

ESD* Investment: A grant of up to \$700,000 to be used for a portion of the cost of acquisition, renovations and the purchase of machinery and equipment.

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

Project Locations: 16 Harrison Avenue, Yonkers
1 Lawton Street, Yonkers
555 Taxter Road, Elmsford

NYS Empire Zone
(or equivalent): N/A

Proposed Project: Building purchases, lease, renovations, and purchase of new machinery and equipment, associated with increases in production and capacity.

ESD Incentive Offer Accepted: January 5, 2007

Project Completion: September 2009

Number of Employees at Project Locations:

Initial employment at time of ESD Incentive Offer:	185
Current employment level:	227
Minimum employment through January 1, 2012:	185

Grantee Contact: Ralph Karanian, Chief Operating Officer
555 Taxter Road
Elmsford, NY 10523
Phone: (914) 909-1922
Fax: (914) 909-1998

Anticipated
Appropriation
Source:

Empire State Economic Development Fund

ESD Project No.: V083

Project Team:	Origination	Paul Taxter
	Project Management	Brendan Healey
	Affirmative Action	Denise Ross
	Finance	Amit Nihalani
	Environmental	Soo Kang

II. Project Cost and Financing Sources

<u>Financing Uses</u>	<u>Amount</u>
Real Estate Acquisition	\$6,553,485
Machinery & Equipment	2,504,774
Construction/Installation	1,409,244
Training	200,000
Design	<u>91,316</u>
Total Project Costs	<u>\$10,758,819</u>

<u>Financing Sources</u>	<u>Amount</u>	<u>Percent</u>	<u>Rate/Term/Lien</u>
ESD-Grant	700,000	6.5%	
Sovereign Bank Loan	2,125,000	19.8%	6.94%/10 yrs/RE
Oritani Bank Loan	2,600,000	24.2%	6.95%/20 yrs/ RE
Celtic Leasing	1,926,147	17.9%	4.95%/5 yrs/M&E
Wells Fargo Equip Finance	176,675	1.6%	6.95%/5 yrs/M&E
Company Equity	<u>3,230,997</u>	<u>30.0%</u>	
Total Project Financing	<u>\$10,758,819</u>	<u>100.0%</u>	

III. Project Description

A. Background

Kimber is privately owned and was founded in 1979 to manufacture classic rimfire sporting rifles. Kimber currently distributes over 100 types of pistols and rifles, as well as products such as pepper spray, through over 2,000 retail dealers in the U.S. and Canada. The Company has a total of five locations in New York, New Jersey, Montana and Costa Rica. Its largest retail customers include Cabela's, Gander Mountain, Turner's, Scheel's, Nation's Best Sports, and Sports Inc. Notable consumers include LAPD Special Weapons and Tactics (SWAT), LAPD Special Investigation Section, U.S. Shooting Team, U.S. Marines, National Rifle Association and many national wildlife conservation groups. Its significant competitors in the pistol market include Springfield Armory, Smith & Wesson, SIG Sauer and Taurus. Remington, Browning, Winchester and Sako are some of Kimber's significant competitors in the rifle market.

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 ESDC'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.

Firearms manufacturing is very competitive and a highly regulated industry. A high level of professional staffing is required in order to ensure proper compliance with laws, rules and regulations. Storage, security, shipping and insurance requirements are significant. In 2007, demand for Kimber's products had outpaced supply and related support functions. In addition, Kimber was working to launch a new pistol line, estimated to be released in early 2010. Lastly, Kimber wanted to pursue some additional opportunities, such as growing its sales to law enforcement agencies. In order to maintain and grow its market share, it was necessary to increase capacity and related support processes.

Kimber considered making investments at its New Jersey facility, where some manufacturing already occurs. Kimber also considered locations in New Hampshire and Florida. In order to induce the Company to proceed with the project in New York State, ESD offered a \$700,000 MAP capital grant to assist with the cost of the project in Yonkers. The Company

accepted the offer in January 2007. As a result of the project, Kimber will retain 185 jobs through 2011 and has created 42 new jobs. Without ESD's assistance, the long-term viability of this facility would have been weakened and 185 jobs could have been relocated from New York State.

B. The Project

The goal of the project was to create additional production space. As part of the project, office functions that had been located at 1 Lawton Street were relocated to newly leased office space in Elmsford that Kimber fitout. The project also involved the purchase and renovation of Kimber's previously leased 16 Harrison Avenue and 1 Lawton Street facilities. Together, these buildings total approximately 80,000 square feet and are located across the street from each other. The move of office functions to Elmsford and the renovations created additional production space at both facilities. Some existing machinery was moved from 1 Lawton Street to 16 Harrison Avenue to improve 1 Lawton Street's layout. The new machinery installed at both facilities include computer controlled multi-axis metal cutting and electrical discharge machinery to cut and form metal components; finishing equipment such as sanders and tumblers to finish the surfaces of components; quality assurance equipment such as coordinate measuring machines and optical comparators to measure the components; material handling equipment such as tool vending machines to automate tool management; and fork lifts to facilitate heavy transport.

The project was completed in September 2009, with the exception that the new pistol line will begin production in early 2010 and will start shipping in the middle of 2010. The project will allow Kimber to increase the daily production of pistols and rifles from 250 to 400. In addition, waste will be reduced as a result of the project.

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): 60% increase in output, from 250 pistols and rifles per day to 400 pistols and rifles per day.

Secondary Outcome(s): Reductions in production lead times and waste and increases in efficiency.

Total estimated value of competitiveness and project outcomes: \$40 million annually.

D. Financial Terms and Conditions

1. The Company shall pay a commitment fee of 1% of the \$700,000 capital grant (\$7,000) upon execution of the grant disbursement agreement. In addition, at the time of disbursement, the Company will 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 any non-debt source of capital, and should be auditable through Company financial statements or Company accounts, if so requested by ESD.
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 Locations 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 Locations 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 \$700,000 will be disbursed to the Grantee in three installments as follows:
 - a) an Initial Disbursement of an amount equal to 50% of the grant (\$350,000) will be disbursed upon documentation of facility acquisition, construction and renovation, purchase and installation of machinery and equipment and related design, construction and facility enhancements totaling at least \$5,000,000, and documentation of the employment of at least 185 Full-time Permanent Employees at the Project Locations, 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 (\$175,000) will be disbursed upon documentation of an additional \$2,000,000 in project costs (\$7,000,000 total), an increase in unit production to 35,000 units in a six month period (of which 2,000 units must be of a new pistol platform), and employment of at least 185 full-time permanent employees at the Project Locations, provided Grantee is otherwise in compliance with program requirements. Production increases shall be certified in a production report by the manufacturing manager with such additional evidence as ESD may require;
 - c) a Third Disbursement of an amount equal to 25% of the grant (\$175,000) will be disbursed upon documentation of an additional \$2,000,000 in project costs (\$9,000,000 total) and employment of at least 185 full-time permanent employees at the Project Locations, 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 January 5, 2007 to be considered eligible project costs. All disbursements must be requested by April 1, 2012.

6. ESD may reallocate the project funds to another form of assistance, at an amount no greater than \$700,000, 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 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		185
A	B	
Date	Employment Goals	
February 1, 2011	185	
February 1, 2012	185	

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 investments in its manufacturing facility, thereby ensuring its continued viability and the retention of 185 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 an existing facility in New Jersey or to new facilities in New Hampshire or Florida.

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 \$5,358,911;
 - Fiscal cost to NYS government is estimated at \$759,760;
 - Project cost to NYS government per direct job is \$5,764;
 - Project cost to NYS government per job (direct plus indirect) is estimated at \$3,375;
 - Ratio of project fiscal benefits to costs to NYS government is 7.05:1;
 - Fiscal benefits to all governments (state and local) are estimated at \$9,370,340;
 - Fiscal cost to all governments is \$843,009;
 - All government cost per direct job is \$6,396;
 - All government cost per total job is \$3,745;
 - The fiscal benefit to cost ratio for all governments is 11.12:1;

- Economic benefits (fiscal plus total net resident disposable income from project employment) are estimated at \$51,132,030, or \$227,145 per job (direct and indirect);
- The economic benefit to cost ratio is 60.65:1;
- Project construction cost is \$1,500,560 which is expected to generate 12 direct job years and 5 indirect job years of employment;
- For every permanent direct job generated by this project, an additional 0.71 indirect jobs are anticipated in the state's economy;
- The payback period for NYS costs is 1 year.

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 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
 Project Finance Memorandum
 Cost-Benefit Analysis

November 19, 2009

Yonkers (Westchester County) – Kimber Manufacturing 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 Kimber Manufacturing 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-Designate 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-Designate 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-Designate of the Corporation or his designee(s) be, and each of them hereby is, authorized to make to Kimber Mfg., Inc. a grant for a total amount not to exceed Seven Hundred Thousand Dollars (\$700,000) 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-Designate 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-Designate 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-Designate 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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