Job Development Investment Grant

Quarterly Report

Fourth Quarter 2011

October - December

Submitted by Economic Investment Committee

Introduction

This report describes all Job Development Investment Grant ("JDIG") awards made by the Economic Investment Committee (the "EIC") during the fourth calendar quarter of 2011, as required by North Carolina General Statutes §143B-437.55(d). The report includes the name of each fourth quarter grantee, the results of the cost/benefit analysis considered by the EIC in making these awards, a description of each project, and the maximum grant amount payable under each such grant for the current fiscal year.

Summary of the Job Development Investment Grant Program

The JDIG program, adopted by the General Assembly in the 2001-2002 session, is a performance-based economic development incentive program that provides annual grant disbursements for a period of up to 12 years, to new and expanding businesses based on a percentage of withholding taxes paid by new employees during each calendar year that is a grant year under a particular grant. The percentage of withholdings that is awarded ranges from 10% to 75%. Grants are made to qualifying companies by the five-member EIC, subject to caps set by the General Assembly on future grant year liability.

In considering whether or not to award a grant, the EIC conducts an extensive review and analysis of an application submitted by a proposed grantee, to determine whether its project meets the requirements of the JDIG Statute[1] and Criteria[2], and particularly, whether the benefits of the project outweigh the costs to the State. The EIC considers both economic and fiscal impacts. The analysis of each project's impact on net State revenue is conducted using a model developed by Dr. Mike Walden of North Carolina State University. The EIC seeks projects that are the most beneficial to the State, after considering a number of different evaluation factors enumerated in the JDIG Statute and Criteria. The EIC also considers these factors when deciding on the appropriate amount and term of an award.

JDIG Awards

As shown below in Table 1, the following grantees received grants in the fourth quarter of 2011: Sequenom Center for Molecular Medicine, Inc. ("Sequenom"), CTL Packaging USA Inc. ("CTL"), Avaya, Inc. ("Avaya"), Chiquita Brands International, Inc. ("Chiquita"), American Roller Bearing Company of NC, Inc. ("ARB"), and Infinisource Holdings, Inc. ("Infinisource").

Table 1

Company	County	County Tier Status
Sequenom	Wake	3
CTL	Gaston	2
Avaya	Durham	3
Chiquita	Mecklenburg	3
ARB	Burke & Alexander	1
Infinisource	Mecklenburg	3

[1] N.C. Gen. Stat. § 143B-437.50 et. seq.

[2] Criteria for Operation and Implementation of Job Development Investment Grant Program, available at http://www.thrivenc.com/sites/default/files/incentives/financial/criteria-of-jdig-Feb-16-2009.pdf

Project Impacts and Cost/Benefit Analysis

Table 2 describes the economic and fiscal impacts for the fourth quarter 2011 grants.

The Job Impact columns in Table 2 describe the direct jobs that are expected to be created as well as the "multiplier" employment impacts of each company's activities. The projects approved in the fourth quarter are expected to create 1,318 direct jobs at full production and approximately 1,491 more indirect and induced jobs.

The expected total increase in the State's gross domestic product (the "GDP") over the life of the grants is measured in the GDP column in Table 2.[3] GDP is a measure of the size of the economy. The six projects approved in the fourth quarter of 2011 are expected to generate approximately $3.705 billion in GDP over the life of the grants.

Table 2 displays the maximum State grant liability over the life of each grant. The grants will only reach the maximums if company performance (jobs, salaries, and investment) meet targets in every grant year, and if withholding amounts meet expectations. Four of the grants awarded in the fourth quarter of 2011 are for projects that will locate in a Tier 3 county, one grant is for a project that will locate in a Tier 2 county and one grant is for a project that will locate in a Tier 1 county. For projects located in Tier 3 counties, 25% of the payments for which those grantees are eligible will be transferred to the Utility Account of the Industrial Development Fund (the "Utility Account") to provide grants for infrastructure in distressed counties. For the project located in a Tier 2 county, 15% of the payment for which that grantee is eligible will be transferred to the Utility Account. The project located in a Tier 1 county will receive the full amount of any grant payment for which it is eligible.

The cumulative State net revenue impact column in Table 2 represents all State revenues generated by a project minus the cost of any State-provided economic incentives (including the JDIG award, potential Article 3J Tax Credits for Growing Businesses, One North Carolina Fund grants and community college training services), and minus the cost of providing State services to migrants from out-of-State that come to North Carolina because of the project. Only projects that generate positive net revenue impacts are eligible for a grant. The six projects approved in the fourth quarter of 2011 are expected to generate over $108.03 million in net State revenue over the life of these grants.

[3] The GDP and fiscal impact are measured over the life of the grant. Therefore, if a grant is awarded for seven years, the impacts displayed are the cumulative impact over seven years. If a grant is awarded for twelve years, the impacts displayed are the cumulative impacts over twelve years. However, it should be noted that the economic and fiscal benefits to the State will continue as long as operations continue at the project facility.

Table 2									
	Job Impact				GDP	Revenue	Maximum State Grant Liability		
Grantee	Direct Jobs	Indirect Jobs	Total Jobs	Target Average Wage	Total NC GDP Impact (millions)	Net State Revenue Impact (millions)	Maximum State Liability to Grantee	Maximum State Liability to Utility Account	Maximum Total State Liability
Sequenom	242	246	488	$53,721	$2,110	$92.60	$2,355,750	$785,250	$3,141,000
CTL	131	134	265	$42,466	$204	$4.59	$1,328,550	$234,450	$1,563,000
Avaya	135	131	266	$87,704	$158	$3.11	$1,692,000	$564,000	$2,256,000
Chiquita	417	607	1,024	$106,801	$826	$1.66	$16,130,250	$5,376,750	$21,507,000
ARB	231	283	514	$38,564	$285	$3.95	$2,031,000	$0	$2,031,000
Infinisource	162	90	252	$81,296	$121	$2.12	$1,913,250	$637,750	$2,551,000
Totals	1,318	1,491	2,809		$3,705	$108.03	$25,450,800	$7,598,200	$33,049,000

Note: This table shows job impacts at full employment. Project amounts and impacts reflect the full term of the grants.

There is no expected JDIG liability from fourth quarter 2011 grants made, for the State's current fiscal year (July 2011-June 2012). Once JDIG annual reports are received, analyzed, DOR certification received, and EIC approval of disbursement authorized, grant disbursements are made. Typically, grant payments are made by the third quarter following the end of a grant year, which is calendar year ending December 31. For calendar year 2011, which is the first grant year for Semprius, if the company meets its performance minimums, it is expected to receive payment in the third calendar quarter of 2012 (FY 2012-2013). For the remaining fourth quarter 2011 grantees noted herein, expected payment for their first grant year (calendar year 2012), would be the third calendar quarter of 2013 (FY 2013-2014).

Project Descriptions

Sequenom Center for Molecular Medicine, Inc. ("Sequenom")

Sequenom designs, develops, manufactures and markets innovative technology, instrumentation and tests that target and serve discovery and clinical research, and clinical molecular diagnostics markets. Applications include translational research, oncology, agricultural genomics and *in vitro* diagnostics for prenatal and retinal disorders.

This project centers on the company's launch of its new T21 product, which is a non-invasive test for Down's syndrome. Additional testing facilities for its existing diagnostic tests were needed, as the company's Grand Rapids testing facility does not have expansion capacity. The company will build a premier molecular diagnostics service facility in RTP, in Wake County, which will process samples and report results to physicians.

The company was able to raise substantial capital that it expects will sustain its operations until the new and expanded diagnostic capabilities result in increased revenues and profitability. The NC Biotech Center stated that "in our opinion, Sequenom represents a potentially compelling opportunity for North Carolina to grow its molecular diagnostics industry." Significant revenues from the T21 test are possible.

Through the new facility in RTP, Sequenom will create 242 new jobs over the next five years earning an average annual wage of $53,721. The company will invest approximately $18.6 million. Before deciding on locating in Wake County, Sequenom considered expansion in Dallas, TX. The key factors in choosing the RTP location were access to relevant technical people, operating expenses for the facility, business and tax environment, potential for weather-related disruption, and quality of life.

CTL Packaging USA Inc. ("CTL")

CTL TH is a privately-held French company owned by the Juan Celaya Foundation, and incorporated in Alava, Spain in 2008. CTL TH is a holding company under which the French and Spanish operating companies, which were previously owned by Juan Celaya personally, were placed. CTL TH customers include the cosmetics, personal care, food and pharmaceutical industries, serving companies such as L'Oréal, Revlon, Clarins, Nestle and Dior. CTL was created to establish the group's North American operations.

The establishment of CTL will allow the simultaneous launch of products globally, a reduction in cost, and improvement in quality and improvement in speed to market for customers' products, which will reduce risks by decreasing lead times. Over the next ten years, CTL plans to create four manufacturing locations in the Americas, including the North Carolina East Coast facility.

Three states were considered finalists for this project, North Carolina, South Carolina (Lancaster) and Virginia (Chesterfield). All three states had adequate conditions for the project and all were considered good options by the company. The company believes North Carolina had a slight disadvantage in terms of taxes. A JDIG award was viewed as a significant factor in the company's location decision.

The South Carolina package was valued at approximately $25 million and included land, tax exemptions, job training and lower operating cost. The offer from Virginia was valued at $8 million and also included land, up-front cash, job training and tax exemptions. Virginia is also closer to the company's customer base, therefore locating there would allow them to lower costs to the customer.

This project will create 131 new jobs over 4 years, with a minimum average wage of $42,466. The company expects to invest $100 million by 2015.

Avaya, Inc. ("Avaya")

Avaya is a global leader in business communications systems. The company integrates voice, video, mobility, conferencing, collaboration and networking technologies into business applications. Avaya's open communications products and services help simplify the complex communications challenges of its customers while enabling them to leverage their existing investments.

Avaya was incorporated in Delaware in 2000. It is a spinoff from Lucent Technologies (which was earlier spun off from AT&T). Avaya is wholly owned by Sierra Holdings Corp., a Delaware corporation which was formed by affiliates of two private equity firms, Silver Lake Partners Silver Lake and TPG, which acquired Avaya on October 26, 2007. Prior to that time, Avaya operated as a public company with common stock traded on the New York Stock Exchange. Avaya acquired certain enterprise solutions business assets as a result of Nortel's bankruptcy proceedings in 2009, and then remained in the former Nortel facility in Durham as a subtenant. On June 9, 2011, Avaya filed an SEC registration statement for a proposed initial public offering of $1 billion of its common stock. Avaya has not yet proceeded with this offering.

This project consolidates certain supply chain activities that were located at multiple sites around North America as a result of the Avaya's acquisition of Nortel's Enterprise Solutions. In addition, Avaya will design and build a marketing and sales center of excellence, including a video collaboration studio, to support the expansion of its recently announced video collaboration line of products and solutions. The project will create 135 new jobs over 4 years with an average annual wage of $87,704. In addition, the company will retain 304 current North Carolina job.

Avaya will move work currently performed in Avaya facilities in Basking Ridge, New Jersey; Westminster, Colorado and Ontario, Canada to the new North Carolina facility. Each of these Avaya facilities were substantially underutilized, with sufficient excess square footage available to accommodate all of the proposed new supply chain activity. For example, Basking Ridge had 60,000 square feet of unoccupied office space and Markham (Toronto) had approximately 12,000 square feet of vacant office space.

With respect to the selection of a location for the video collaboration studio, Avaya had the option of up-fitting a new facility, or adding video equipment to its existing Executive Briefing Centers in Santa Clara, California; Basking Ridge, New Jersey; and Westminster, Colorado. Each of these centers had the required power and infrastructure to support this project.

Award of this JDIG grant was necessary to induce the company to locate this project in North Carolina.

Chiquita Brands International, Inc. ("Chiquita")

Chiquita operates as a leading international marketer and distributor of fresh produce, which is sold under the premium Chiquita®, and Fresh Express® brands and other trademarks. The company is one of the largest banana distributors in the world and a major supplier of bananas in Europe and North America. In Europe, the company is the market leader and obtains a price premium for its Chiquita® bananas, and the company holds the No. 2 market position in North America for bananas. In North America, the company is the market segment leader and obtains a price premium with its Fresh Express® brand of value-added salads.

This project is for the relocation of Chiquita's Global Corporate Headquarters and Research & Development Innovation Laboratory from Cincinnati, Ohio. Improved air accessibility to primary destinations in Latin America/Europe and access to an experienced international labor force impacted Chiquita's decision to relocate. The initial phase of the project consists of headquarters operations, to be developed within the first two and half years of the grant. During its third grant year, Chiquita will relocate its Research & Development Innovation Laboratory to Charlotte. This will be housed in a separate facility from the headquarters operations. Chiquita will create 417 new jobs at an average annual wage of $106,801, and invest over $14 million dollars by December 31, 2014.

Chiquita gave serious consideration to the relocating in Florida or Louisiana, or staying in Cincinnati. Overall, the competitive locations demonstrated significant aggressiveness in providing upfront cash to help offset the tremendous cost burden in relocating Chiquita's international headquarters, which surpassed North Carolina's offer. The competitive locations also proposed additional tax and non-tax incentives to further reduce the company's cost of doing business.

American Roller Bearing Company of NC, Inc. ("ARB")

ARB is a wholly owned subsidiary of American Roller Bearing Industries, Inc. ("ARB Ind"), incorporated in North Carolina in 1979. ARB Ind's first manufacturing plant was located in Pittsburgh, Pennsylvania in the 1920s. All manufacturing operations were moved to North Carolina during the early 1980s (Morganton, NC and Hiddenite, NC) and the corporate office was relocated to Hickory, NC in 2007.

ARB manufactures anti-friction bearings for thousands of different types of industrial equipment used in the following industries: electrical power generation, mining and rock crushing, primary metal making and rolling mills, oilfield equipment, construction equipment, railroad, gear drives, corrugated box and papermaking, and wind energy.

This project will create 231 new jobs with an average annual wage of $38,546, with a private capital investment of $23.7 million. In addition, ARB will retain 341 current North Carolina jobs for the term of this JDIG. The project provides ARB with additional manufacturing square footage, machinery, and an expanded labor force to accommodate its sales and shipping goals for the next 6 - 8 years.

ARB considered locations in North and South Carolina for this expansion. The original selection criteria included suitability and cost of the facility, proximity to Charlotte and Atlanta and existing heat treat suppliers in upstate South Carolina, labor force availability, training programs, and incentives. Over 40 facilities matched the initial search criteria. The search was narrowed to 5 potential sites.

The Morganton location was larger than the other facilities identified and involved significantly more in retrofit cost. The favorable acquisition price, plus incentives for use in renovation, made this location competitive in comparison with the other locations under consideration.

Infinisource Holdings, Inc. ("Infinisource")

Infinisource, headquartered in Ohio, is a human capital management company focused on delivering services to small to mid-market companies. Infinisource is developing a new division dedicated to servicing and expanding the human capital management product the company currently offers. The location of this project will serve as the new company headquarters, a growth center for the new human capital management product, and will consolidate business elements, including finance, HR, payroll, IT and sales. The company will launch a new product that includes payroll management. The project is expected to create 162 new jobs over five years at an average annual wage of $81,296.

The company assessed real estate options in the Charlotte region, including Lancaster County, South Carolina. Available SC incentives include the SC Enterprise Program, property tax abatements through the SC Fee la-Lieu of Property Tax Program (PILOT), and up-front monies. The company valued these grant opportunities at $3 million. The company also stated that it explored locating this expansion in one of its existing facilities in either Michigan or Ohio. Award of this JDIG was critical to the selection of North Carolina as the location for this project.