# NYBDC

New York Business Development Corporation
Empire State Certified Development Corporation

*Access to Capital for Small Business*

# ANNUAL REPORT 2013

**www.nybdc.com**

# Members

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Adirondack Trust Company
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National Bank of Coxsackie
National Bank of Delaware County
National Union Bank
of Kinderhook
NBT Bank
New York Commercial Bank
Northfield Bank
Northwest Savings Bank

Oneida Savings Bank
Orange County Trust Company

PathFinder Bank
Patriot Federal Bank
Peoples Neighborhood Bank
People's United Bank
Pioneer Savings Bank
Provident Bank
Putnam County Savings Bank

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Ridgewood Savings Bank
Riverside Bank
Rondout Savings Bank

Safra National Bank of New York
Saratoga National Bank
& Trust Company
Savannah Bank
Sawyer Savings Bank
Signature Bank
Solvay Bank
Sovereign Bank
State Bank of India
Sterling National Bank
Steuben Trust Company
Suffolk County National Bank

TD Bank
The Berkshire Bank
Tioga State Bank
Tompkins Trust Company
Trustco Bank, New York

Ulster Savings Bank
Upstate National Bank
USNY Bank

Valley National Bank
Victory State Bank

Walden Savings Bank
Wallkill Valley Federal Savings
& Loan Association
Watertown Savings Bank
Westchester Bank

NYBDC relies on the financial support of its member banks and the New York State Common Retirement Fund to support is operations. In FY 2013, 120 banks and the Common Retirement Fund provided lines of credit totaling $157.0 million, which supplemented our equity and significantly expanded our capacity to meet the needs of small businesses. The support of our member banks and shareholders (both separately listed in this Annual Report) makes NYBDC unique and facilitates the accomplishment of our mission.

# Report on Operations

## *Mission Based Lending… Promoting Prosperity and Opportunity in New York State*

As a "mission based lender," NYBDC looks beyond simply generating shareholder value and return on investment to focus on the broader mission of promoting prosperity and opportunity. Although our operations, in many respects, mirror the commercial lending function of a traditional bank, we are focused on providing leveraged capital to small businesses that are unable to obtain loans through traditional means. Our mission is to provide capital to facilitate jobs growth and economic development. Despite our limited focus – essentially loans that a conventional bank would not approve – we have operated successfully and profitably through an incredibly challenging period. Our borrowers, many of which have weaker balance sheets and limited operational experience, have faced the brunt of the recession. The areas of greatest activity and concentration for us are ones where experience and judgment urge restraint and caution from others.

*James J. Byrnes, Chairman of the Board, and*
*Patrick J. MacKrell, President and CEO, NYBDC*

Notwithstanding the challenges we faced from a sluggish economy and a long overdue recovery, we had an exceptionally busy and productive year. The close collaboration among our staff, loan committees and boards of directors has promoted a careful and disciplined approach to credit which has served us well. We are pleased to report another exceptional year as NYBDC and its affiliates met or exceeded goals for portfolio growth and profitability while limiting loan losses.

We continually focus on identifying the financing gaps faced by small business and developing alternate sources of leveraged capital to supplement what can be provided by our lending partners for creditworthy small businesses. In many respects, we see NYBDC as a "farm team." New or early stage businesses can start with us to build an operating history and balance sheet to prepare them for conventional bank support. Mature businesses that have stumbled can get a "rehab start" with NYBDC as they address the issues necessary to return them to profitability. In either case, our goal is to support the growth of businesses that are not otherwise able to obtain leveraged capital on reasonable rates and terms and bring them to the point where our lending partners are competing for their relationship! Success in our world is measured by many intangibles and metrics unique to our mission; contribution to economic development, jobs growth and overall prosperity are the goals that drive our programs, policies and projects.

We also recognize that if we are to remain robust and relevant we have to manage our activities in a prudent manner such that we are able to continue to attract the financial support of our member banks and funding partners and maintain our strong capital position. Our financial performance in FY 2013 indicates that we are hitting those marks. Key highlights include the following:

- Net Interest Income increased 10.4% to $6.2 million.
- Fee and Other Income increased 13.9% to $11.6 million.
- Income before provision for income taxes increased 14.8% to $3.6 million.
- Total Equity increased 7.5% to $26.6 million.
- Loan fundings increased 8.63% to $231.3 million, following 23% and 22% increases in FY 2012 and 2011, respectively.
- Loans to minority- or women-owned businesses represent 35% of our portfolio.
- Loan charge-offs of $202.0 thousand or 10 basis points.

This strong performance is consistent with our recent history... since FY 2006, total equity for NYBDC and Empire State CDC dba The 504 Company ("The 504 Company") increased by 40.8% while dividends totaling $1.2 million have been distributed to our shareholders. The total equity for the NYBDC Foundation and NYBDC Local Development Corporation (not-for-profit organizations affiliated with NYBDC by common management) increased to $2.4 million. During the same period, annual loan losses have averaged less than 17 basis points.

During 2013, Statewide Zone Capital Corporation of New York ("Statewide") was dissolved and we are in the process of winding up its affairs and distributing its assets to the shareholders. Thus far, we have returned 87% of the original cost basis to the shareholders and anticipate additional distributions sufficient to allow shareholders to recover the cost of the investment. Statewide was capitalized by 75 banks to support the Empire Zones Program. Since this program was not extended by the State of New York, the board of directors and the shareholders determined that dissolution was appropriate.

We have made significant progress towards our goal of adding a community development financial institution ("CDFI") to our affiliated group of companies. NYBDC Local Development Corporation dba The Excelsior Growth Fund has made application to the Treasury Department for CDFI designation for this not-for-profit entity. CDFI status will facilitate access to equity and patient (i.e., longer term) capital to support an expanded appetite for risk, a widening of eligibility beyond the U.S. Small Business Administration parameters and a focus on low and moderate income areas, enterprises and individuals. The CDFI designation will provide us with additional

*(continued on page 2)*

# Report on Operations *(continued from page 1)*

tools to meet demand we are seeing across many markets for gap financing and financing for projects that are not eligible or appropriate for SBA financing. This tool will be particularly important in our upstate markets as there is limited access to alternate funding in many of our rural communities; we are hopeful that this will provide a significant boost.

Our movement to establish a CDFI and other initiatives we have implemented or plan to implement are largely products of input we received from our lending partners in Central, Northern and Western New York. In these markets, our partners identified a need to have greater resources available to support start-up, subordinate and gap financing. Additionally, there was an identified need to provide support for smaller construction projects and alternatives to SBA financing.

The NYBDC Foundation, funded by contributions from our earnings, was also quite active in FY 2013, distributing grants totaling $223,000 to 150 charitable organizations across our state. The vast majority of these were locally organized and operated with a mission to serve New Yorkers in need. Countless numbers of our neighbors have benefited from the food pantries, shelters and youth programs that we have supported.

During FY 2013, The 504 Company opened an office in King of Prussia, Pennsylvania as it expanded its area of operations to include the Commonwealth of Pennsylvania. This expansion will not only increase access to SBA 504 loans in Pennsylvania, but will also increase employment at NYBDC in New York as we expand staff in our central office to process, underwrite and service loan activity generated as a result of this expansion and allow us to enjoy greater economies of scale in our overall operation. Although this expansion is in its infancy, it has great potential.

Last year at this time we were just embarking on a loan program to assist small businesses that were impacted by SuperStorm Sandy. Ultimately, we partnered with NYC Economic Development Corporation, Empire State Development, Goldman Sachs, New York Bankers Association, 33 member banks, the Mayor's Fund to Advance the City of New York and the Partnership for New York City and advanced our first loan on November 21, 2012 and our last on August 12, 2013. In all, we considered 1,551 loan applications and advanced $18.29 million in loans to 797 small businesses. Additionally, we disbursed $4.9 million in grants to 514 small businesses. We are now engaged in the next phase and are assisting NYC and NYS in disbursing more than $250 million in Community Development Block Grant – Disaster Recovery funds through loans and grants to small businesses.

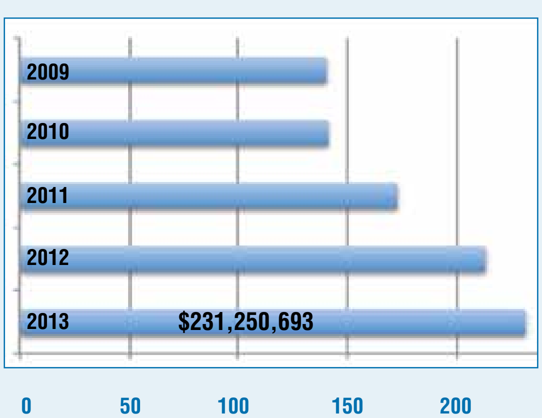
We are determined to grow our "alternate lending" pipeline as our leading priority in 2014 and encourage our lending partners to refer loan applicants to NYBDC when they cannot provide a solution. We see a substantially expanded role for NYBDC as a complement to conventional lending given our expanded appetite for risk and our commitment to the growth of opportunity for small business. We look forward to the support of our lending partners by referrals to the NYBDC Farm Team!

In closing, thanks to our outstanding staff... each year we reach new heights due to their commitment and dedication to our mission and the mutual support, guidance and encouragement they provide to each other. This year, we asked them to "dig deep" as we made commitments to our fellow New Yorkers in need following Hurricane Sandy; we expected them to rise to the occasion and we were not disappointed.

Patrick J. MacKrell
President & CEO

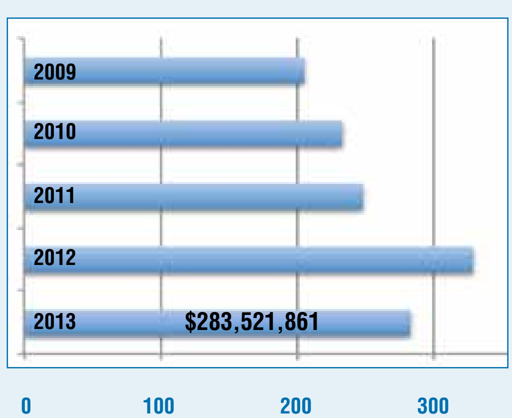
James J. Byrnes
Chairman of the Board

## Loan Advances
**Total**




*(in millions)*

## Loan Approvals
**Total**




*(in millions)*

## Loan Portfolio Managed
**Total**


*(in millions)*

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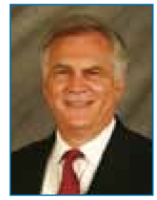

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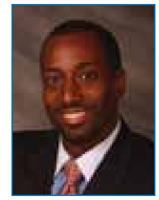

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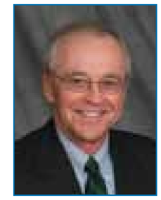

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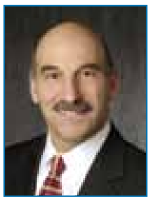

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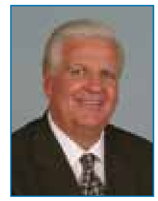

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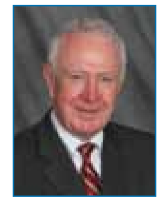

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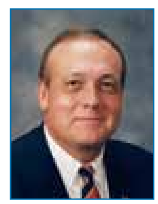

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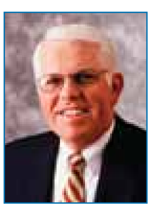

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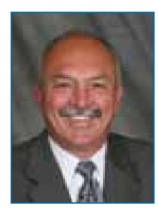
**Brian T. McMahon**
*Executive Director*
*New York State Economic*
*Development Council*
*Albany, New York*



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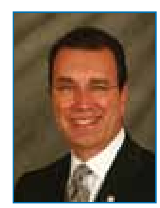

**David J. Nasca**
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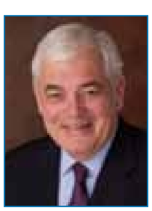

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*Community Bank System, Inc.*
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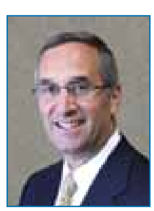

**Michael N. Vittorio**
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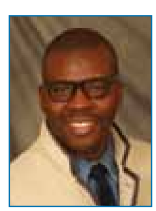
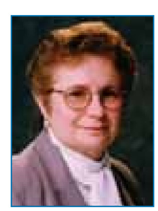
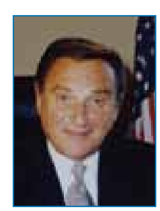
*The First National*
*Bank of Long Island*
*Glen Head, New York*



**Amos Winbush III**
*Chief Executive Officer*
*CyberSynchs, LLC*
*New York, New York*



**Maryann M. Winters**
*Certified Public Accountant*
*Sirchia & Cuomo, LLP*
*East Syracuse, New York*



**Lewis Yevoli**
*Retired New York*
*State Assemblyman*
*Old Bethpage,*
*New York*

# American Christmas

## New York, New York

As soon as you hear the refrain from the holiday song, you instantly think of snow-covered streets, grandma's house and Christmas lights.

"*It's the most wonderful time of the year…*"

Except that it's the middle of summer on the hottest day of the year and Christmas is months and several notches on the thermometer away.

"We're always thinking about Christmas here," said Fred Schwam, owner of American Christmas, Inc. "We're a year round business that focuses on just a few months of the year."

American Christmas is one of New York's leading commercial Christmas firms, designing, fabricating, installing and storing commercial decorations and displays for buildings, retail establishments and offices throughout the tri-state area. Schwam's father started the business in 1968 and Fred took over the Christmas division 20 years later.

As the company grew in the 2000s, Schwam ended up renting 65,000 square feet of space in five different buildings (four in the Bronx and one in Jersey City). "We were spending a lot of money and time transporting products between our facilities and not being as productive as we could have been. We also were losing out on the benefits of owning our own facility," Schwam said.

"I always wanted to own, but was never in the financial position to get the building that the company needed," he said. "Because we are growing, I wanted to get into a building that would consolidate our five locations and still allow us room to continue to grow."

All of the building leases were expiring in 2010 so the time was ideal to find a facility for American Christmas that would be large enough to allow the company to grow. Schwam began working with a broker and eventually located an ideal facility in Mount Vernon.

Then, he needed to get the purchase financed.

"I was aware of The 504 Company and Chet Sadowski – he actually helped my father with a loan several years before," said Schwam. "So I gave him a call when I found this property and explained to him what I wanted to do."

"The complication with American Christmas is the very unique nature of the business. Their season is only four weeks long or so. Nonetheless we could see that this was a well-run business with growth opportunities that would create jobs," said Sadowski, an NYBDC senior vice president.

The 504 Company, in partnership with Wells Fargo, was able to help American Christmas finance the purchase of the 110,000-square-foot building in Mount Vernon with a $3.75 million loan combining SBA 7(a) term loans with 504 funding.

"We have been working with the NYBDC and The 504 Company for years and are very comfortable with their processes and expertise in providing financing for small businesses," said Joe Vanella of Wells Fargo. "When American Christmas was looking for a building to accommodate their growth, The 504 Company and the SBA 504 loan was a perfect solution."

"We were able to put the deal together to get American Christmas into the new property quickly and in time for their busy season," said Sadowski.

"This was one of the best business decisions that I ever made," said Schwam. "The 504 Company was terrific; they were easy to work with, very organized and cooperative throughout the process. They engaged me as a partner and that made it easier to work with them."

Schwam estimates that his business will grow another 15 percent this year. Thanks to The 504 Company and the purchase of his new facility, he has plenty of room for growth.

As Schwam says, "We have a great business. No matter how tough times are, everyone still celebrates the holidays!"

**Joseph Vanella of Wells Fargo, Fred Schwam of American Christmas and Chet Sadowski of NYBDC**





# Druthers Brewing

## Saratoga Springs, New York

The famous Confucius saying goes, "Do what you love and you'll never work another day in your life."

That saying couldn't be more accurate for brothers Chris and Brian Martell.

After growing up in and around Saratoga Springs, Brian left the area to work on Wall Street while Chris began a successful legal career in the area. Brian was working as an analyst at Lehman Brothers when the company began to change and the market began to shift.

"Brian called me up and said that it was time for him to leave there, but he wasn't sure what he wanted to do next. I asked him what he wanted to do and he jokingly said, 'Let's do something we've always wanted to do; let's make beer for a living," said Chris. Both brothers were active home brewers and had often fantasized about expanding into a commercial enterprise. "I thought he was joking, but when I thought about it, it started to make sense. We both independently started putting together a business plan. We called each other a few days later and both realized that the other was serious, so we started moving forward."

Brian moved back to the area with a goal of finding space to build a commercial brewery, but the brothers quickly modified their plans to include a brewpub. They wanted to be on Broadway (the main street running through downtown Saratoga Springs) and really wanted to have an outdoor dining area. "One day, we were walking up and down the street looking for potential locations and we saw a For Sale sign on a storefront. We walked in and knew that we found the place," said Chris.

Armed with a business plan, a potential location, some personal assets and a desire to fulfill their dreams, the brothers began talking to banks about financing the deal. "Unfortunately, especially at that time, we were unable to obtain conventional financing for this start-up enterprise," said Chris. "I worked with a law firm that represents NYBDC so I made a call there and that's when everything began to come together."

"The brothers came to us with a very sound business plan and, surprisingly, there wasn't really anything like this in Saratoga. We believed in them and their plan, and we were able to help put together a deal that made sense," said Ross Pancoe, NYBDC vice president.

Pancoe and his team at NYBDC put together a loan package that included an SBA 504 loan, and the Druthers Brewing Company was launched.

Since opening in August 2012, revenue is nearly twice the projected amount and an expansion to the bar area is already underway. "We've exceeded our wildest expectation already, and now we're looking to starting a commercial brewery in Albany to provide our beers to other restaurants and bars throughout the Capital Region," said Chris.

"NYBDC is the only lender that believed in us and stepped up. Without NYBDC this wouldn't have happened," said Chris.

Why is the Saratoga brewpub known as the Druthers Brewing Company? Look on its website and see it right there:

> *"Given our Druthers, we are choosing to brew choice beer for good-humored, freethinkers that would rather do it their own way... Rewarding those that put their life, work, and convictions to the test.*
> *Given your Druthers, what will you choose??"*


**Sean Comiskey and George de Piro of Druthers Brewing; Ross Pancoe of NYBDC; and Scott Martell, Brian Martell and Chris Martell of Druthers Brewing**




# Blue Marble Ventures

## Brooklyn, New York

Entrepreneurs Jennie Dundas and Alexis Miesen started Blue Marble Ice Cream, the only certified organic ice cream brand native to New York City, with a goal of “making taste buds happy and hearts feel good.”

Inspired by the iconic photo of Earth taken on the 1972 Apollo 17 trip to the moon, Blue Marble is based on a business plan that includes eco-conscious elements, including biodegradable cups and spoons and reclaimed and otherwise green building materials, and a focus on supporting sustainable, responsible agriculture.

Flavors using what’s found in nature, such as vanilla and strawberry, are complemented by seasonal favorites such as chocolate raspberry truffle, maple walnut, pumpkin, eggnog, green tea and key lime pie. “Ice cream is a mix of science and magic,” said Miesen of the culinary creativity led by Chef Billy Barlow.

Blue Marble’s Cobble Hill location was the first shop on the East Coast to offer certified organic soft serve and continues to enjoy business from neighborhood families and children. Its Prospect Heights location has built a strong trade in coffee sales for commuters, in addition to a brisk ice cream trade.

Previously, busy summers gave way to slow periods during cold weather months, leaving Dundas and Miesen with no staff and having to scoop ice cream without taking salaries. To offset slow winter sales, Blue Marble entered the wholesale scene in 2010. Soon after, sales to restaurants and retailers in the New York metro area exploded and included prime placement at foodie favorites Bareburger, Harlem Shake, Barclays Center, and Danny Meyer properties, including Gramercy Terrace. “Business is so much about the relationships and building partnerships,” said Dundas. “Launching the wholesale division was so exciting and seemed the next natural stage in Blue Marble’s evolution.”

With distribution deals also set with food co-ops and specialty retailers, a deal with retailer Fresh Direct evolved. The owners knew they had the systems in place, but for their expansion plans to succeed, they needed capital. NYBDC provided a $350,000 loan for machinery, equipment and working capital to expand Blue Marble’s wholesale operation and to help launch the next phase of growth, manufacturing.

“When I first met Alexis and Jennie, I was taken by their professionalism, how well they were able to articulate every aspect of their business and how easy they were to work with,” said Christina Lopez, NYBDC assistant vice president. “As a company, NYBDC is solutions oriented; we want to help meet the needs of the borrower while protecting our investment. Alexis and Jennie had already done a great job of building a strong customer base and reputation for business practices that are meaningful to New Yorkers.”

In 2012, Blue Marble started making its award-winning ice cream at New York City’s only certified organic ice cream plant in historic Sunset Park, Brooklyn. Industry City, with tenants ranging from manufacturers and wholesalers to visual and performing artists, was a natural fit for Blue Marble. “There is so much of Brooklyn embedded in Blue Marble’s identity,” said Dundas. “Manufacturing in New York City is staging an exciting comeback, particularly in the artisanal food realm. We are thrilled that our manufacturing facility is part of the revitalization of this area.”

Blue Marble has enjoyed rapid growth. It started with four employees and now has a workforce of 30. With little formal outreach, the wholesale side of the business will bring in close to $1 million in revenue in 2013. Manufacturing is churning more than 2,000 gallons of ice cream a week during peak season. Dundas and Miesen have even found a way to pay it forward through Blue Marble Dreams, a nonprofit initiative they started to support communities in need through the unlikely medium of ice cream. Through this program, Dundas and Miesen partnered with a group of women in Rwanda to help them open Sweet Dreams, their country’s first-ever ice cream shop.


Alexis Miesen and Jennie Dundas of Blue Marble Ventures and Christina Lopez of NYBDC


# Hidden Café

## Delmar, New York

Tim and Mike Fuller are committed – really committed – to hummus.

"I come home every day and smell like garlic and chick peas. It's in my skin, my hair and my clothes. But, I don't mind. It smells like success to me," said Tim Fuller, co-owner with his brother Mike of The Hidden Café in Delmar.

The Hidden Café (named for its location in the corner of a shopping plaza) has been a successful restaurant in the Albany bedroom community of Delmar for about five years. Mike worked the front end of the restaurant and knew that the owner was looking to move on. He talked to Tim, who had some experience managing businesses, and decided that this was the business they had dreamed of owning together.

There were just two problems: neither of them knew how to make the Mediterranean dishes – including the famous hummus – that the restaurant was known for and, of course, getting the financing. Both hurdles needed to be overcome before the brothers could take over The Hidden Café.

The cooking classes came first with the current owner (who was also the head chef) giving the brothers a crash course, and then NYBDC took over.

"We had a friend at a local bank and went to him to talk about a loan to buy the business. Although they were unable to assist with the loan, they were invaluable in providing us with a referral to NYBDC. When we first met Tim Larson, he immediately put us at ease. He guided us through the process step-by-step to get us to the day when our loan closed," said Tim Fuller.

In many – if not most – cases, NYBDC partners with a bank on a small business loan. After getting the referral, NYBDC pursued the loan independently. Larson, NYBDC's loan officer, began meeting with the Fullers, getting to know the restaurant and their business plan.

"Of course, this was a riskier type loan because of the industry and the fact that they didn't have a really long track record of running restaurants, but the business was already successful and they were very organized. Once we got some financial information from the previous owner, we were on our way," said Larson. "The brothers put everything they had into this business – both financially and emotionally. Their hearts are in it so we knew we could make it work."

"Tim (Larson) kept after it. He must have made dozens of calls on our behalf to the former owner to get the information they needed to close the deal. He and everybody at NYBDC have been great to us," said Tim Fuller. "Even today, Tim will come in and meet with us over lunch to check in and see how we're doing. We think he likes our food more than meeting with us, but that's ok."

Larson isn't the only big fan of The Hidden Café at NYBDC. President and CEO Pat MacKrell counts the restaurant among his favorites in the Capital Region and makes frequent visits there.

Three years after taking over and closing the loan, The Hidden Café is doing better than ever and the Fuller brothers are up to their necks in hummus. "We still love it. We're glad that so many people come here for meals and want to leave with gallons of our hummus. It keeps them coming back."

The garlicky smell may be tough to wash out, but the smell of success is even more overpowering.

**Tim Fuller and Mike Fuller of Hidden Café and Tim Larson of NYBDC**



# Bay Street Animal Hospital

## Staten Island, New York

In the ethnically diverse, working class neighborhoods of Staten Island, on average there are two pets in each of the 350,000 homes. Many of the smaller animal hospitals there traditionally close at dinner time and refer after-hours cases to New Jersey, Brooklyn or Manhattan; for emergency cases, extended travel time can negatively impact the chances of successful treatment.

Bay Street Animal Hospital, the largest full-service animal hospital on Staten Island, wanted to expand its building and its operating hours to provide emergency and routine services on nights and weekends. With more than 65 years of combined experience, business partners Dr. Theresa Cavallaro and Dr. Robert Cohen perform diverse services, including surgery, dentistry, intensive care and ophthalmology in the course of a single day.

"Many small entrepreneurial businesses find it difficult to secure financing from traditional lending sources," said Dave Hanold, NYBDC assistant vice president. "When we reviewed Drs. Cohen and Cavallaro's business history and expansion plans, we knew that this was going to be a great project. We look to develop relationships with our borrowers and, more importantly, to understand their character. They showed us that they had built Bay Street Animal Hospital into a successful operation, and we were enthusiastic about helping it expand."

With a $300,000 loan for leasehold improvements, equipment and working capital, Bay Street Animal Hospital was poised to offer full medical, grooming and daycare/boarding services 24 hours a day, seven days a week. The hospital doubled its space, grew from four to six veterinarians and almost doubled the number of employees.

"We now have three connected but independent state-of-the-art pet handling spaces that help limit noise and separate air handling systems so that the medical patients are completely separated from the grooming and boarding services. Animal hospitals should never smell like…an animal hospital," said Dr. Cavallaro. "By offering everything under one roof, we're able to provide a comfortable and comforting facility for our existing clients and have the benefit of one-stop shop convenience to attract new clients. Our hotel and pet grooming areas keep our clients coming back to us for all of their pet's needs. We've been able to have a little decorating fun, creating a sort of 'destination hotel' for our boarding clients with rooms themed to Paris, Venice, Egypt, and Waikiki…we even have a presidential suite."

Construction had been complete for only two weeks when SuperStorm Sandy hit. While the storm howled around them, the staff continued to tend to their patients. It was only when the water reached their doorstep that they evacuated the animals to higher ground. Despite the roof being destroyed and two feet of water in the waiting room, Bay Street Animal Hospital rallied.

"Dave from NYBDC was the first call we received, not the insurance company," said Dr. Cohen. "NYBDC believed in us for the initial project and then helped us secure a grant to rebuild from the storm damage. Our renovations were destroyed but not our spirit. Dave even made arrangements to help adjust the repayment schedule for the original loan. Everyone pulled together and we were able to open three days after Sandy on a limited basis. Without that empathy and financial support, I don't know how we would have done it."

"When Hurricane Sandy hit and damaged the construction that we had helped fund, we made sure that Bay Street Animal Hospital was able to access the Relief Loan Program we administered in New York City," said Hanold.

It took nine months to get back to pre-Sandy conditions, but Bay Street Animal Hospital is open and thriving. Revenues are upwards of $4 million (more than 10 percent higher than last year) and more than 12,000 pets are cared for annually.

**Dr. Robert Cohen of Bay Street Animal Hospital, Dave Hanold of NYBDC and Dr. Theresa Cavallaro of Bay Street Animal Hospital**

# HSM Packaging

## Syracuse, New York

HSM Packaging, a Syracuse-based manufacturer of folding cartons and other packaging products uses its relatively smaller size in its industry to its advantage.

“We are small compared to some others so we know that we have to react faster and become a part of our customers’ teams. We want to fulfill their needs and move quickly to do that,” says Sheila Martin, a co-owner, with her husband Homer, of the business.

“We once got a call from a customer that came to us because their current supplier was frustrating them. After we began working with them, we got a call and our customer asked, ‘Is this how it’s always going to be?’ We thought they were upset but they were thrilled with what we could do for them.”

When HSM began looking to move into a newer facility, they knew that the transition period would be hard because of the service their customers expected from them. “It took us two and a half years to complete the move to the new facility because we always had to keep one line running until we were completely moved in.”

The new facility is almost twice the size of the old one and allowed HSM to expand, increase production and bring on some new employees. To expand capacity, HSM purchased some new equipment that allowed it to move even faster. Working with Jeff Morrison of People’s Capital and Leasing Corporation, the company decided to put together a 504 loan application.

“As I was working through the details of the 504 loan with HSM, we looked for the proper partner and determined that working with The 504 Company made the most sense for this project. We also found out that NYBDC had worked with HSM on a prior real estate transaction so they were familiar with the company and the situation,” said Morrison. “That made it even easier for the customer.”

“We worked with HSM before so we understood the company and the business. They’re a solid business with a good plan. We wanted to make sure we put together something that was responsive to their needs. We both like to move things along so it has worked well,” said David Reaske, NYBDC vice president.

“Our experience working with NYBDC has been very positive. They are very cooperative and understood what we wanted to do. The process has been pretty pain free,” said Martin.

“Our goal was to complete the move, get the new equipment installed and get it up to speed without any interruption of service. With the hard work and professionalism of NYBDC, our other banking partners and, especially, our employees, we were able to accomplish this goal,” she added.

With the new press in place, HSM has been able to take on new business and hire seven additional employees.

“The move took a long time, but it enabled us to continue to turn work around for clients quickly so it worked for us,” said Martin.

David Reaske of NYBDC and Jessica Pletka, Travis Martin, Sheila Martin and Homer Martin of HSM Packaging


# Nuchas, LLC

## New York, New York

With a Times Square food kiosk offering artisan quality hand-held food already enjoying great success, Nuchas owner and creator Ariel Barbouth was considering ways to expand his business to reach more people. His customers loved Nuchas' traditional Argentinian food and Barbouth wanted to extend the Nuchas name and create a brand that would be readily recognized as a provider of high quality food made with innovative flavor combinations.

Following two successful years in business selling items such as meat-filled and vegetarian empanadas and sweet croissants, his initial idea was to open some retail outlets. However, he eventually realized that a mobile food truck was the most economical way of expanding the business.

"I wanted to prove a concept, and so I found the path of least resistance to my goals, and that was a food truck," Barbouth said.

It was his good luck to attend a Brooklyn Hispanic Chamber of Commerce meeting where he met NYBDC President and CEO Pat MacKrell. After talking with Barbouth about his goals, MacKrell encouraged him to submit his business plan for consideration. NYBDC Vice President Tara Caroll then got involved.

"As a food lover, I was excited to read Ariel's business plan," she said. "When I met with him I saw the incredible passion he had for his product and the idea of taking it to the streets of New York City in a brand new, custom built food truck. From the recipes to the packaging, you can see his attention to and love for every detail."

Caroll connected Barbouth with the Brooklyn Small Business Development Center to get help refining his business plan and adjusting his projections. Once that was done, he applied for loans totalling $345,500 to support construction of the custom-made truck, the kitchen equipment housed in the truck that enables it to be a mobile eatery, and marketing and public relations efforts.

"A food truck is not a common use of proceeds for a small business loan," said Carroll. "The idea may seem too trendy for conventional lending support, but Ariel showed NYBDC that it was a way to expand his brand, create jobs, and have a little bit of fun while doing it."

Since the loan was made, Barbouth has grown the business several hundred percent. During the spring, summer and fall when the weather is warmer, he employs about 30 people; during colder months – when business is slower – he has about 15 people on staff.

The truck now travels the streets of New York's five boroughs every day and as a result the Nuchas brand is gaining significant name recognition. The Times Square kiosk continues to do well, especially with tourists, according to Barbouth.

Barbouth considers Caroll to be "an unbelievable resource." He said, "She has helped us since day one when it was clear she really liked what we were doing. She immediately saw something that had potential and took a chance on us. I still talk to her every month. She makes sure I don't go in the wrong direction."

With the success he's seen with the food truck, Barbouth has even bigger plans for Nuchas, including his original idea of opening some retail outlets and introducing a frozen food line that he would market nationally. Whatever the future holds for Nuchas, Barbouth said NYBDC is certain to be a part of those plans.


Tara Caroll of NYBDC and Ariel Barbouth of Nuchas


# TurnKey Internet

## Latham, New York

Other businesses wish they had the growth problems of TurnKey Internet, the Capital Region-based, full-service hosting provider and data center that offers websites, communications services, web-based IT systems, software as a service (SaaS) and cloud computing.

TurnKey President Adam Wills was one of the founders of Global 2000, the first Internet company in upstate New York. Inspired by those early days, Wills formed TurnKey with the same vision of being ahead of the curve and able to meet his customers' Internet and hosting needs.

TurnKey had purchased a 12,000-square-foot building to accommodate the equipment needed to meet the demands of its current client base plus three to five years of projected growth. By the time the purchase was completed, TurnKey had outgrown the building's power capacity and needed to invest hundreds of thousands of dollars to upgrade the electrical infrastructure. Due to the nature of the business of data centers, TurnKey consumed the same level of energy as a large hospital.

With technology and environmental concerns first and foremost, Wills knew he had to find the right partner that understood his plan for the future.

NYBDC stepped in and partnered with M&T Bank to make a $680,000 loan available for working capital, refinancing of the initial mortgage and construction and renovations.

"I've dealt with a lot of entrepreneurs who had their heads in a cloud. In Adam's case it was 'cloud computing' and he had a clear vision of how to execute his plan," said Tom Reynolds, NYBDC vice president. "It's always nice to find a small business owner who has clearly identified the market niche and also has all the requisite skills to make the business a success."

The investment allowed TurnKey to purchase extremely green and high-efficiency infrastructure technology, and still maintain the highest level of data center reliability and performance. TurnKey runs a multi-megawatt, high-voltage power system to maintain thousands of servers and a fully redundant, next-generation fiber optic network within multiple high-tech clean rooms using the most advanced green datacenter technology in the world.

With the installation of on-site solar arrays and use of hydroelectric power, TurnKey is completely fossil fuel free. "Our on-site solar power generation, hydro-electric power and green-friendly server technologies combine to make TurnKey Internet stand out from all other data centers across the globe as a leader in green cloud-hosted services," said Wills. "Demand for green-conscious solutions is growing as fast as energy costs, and we have managed to remain ahead of the curve on both for our clients."

"Working with Adam has been a pleasure," said Philip Engborg, M&T vice president. "What has impressed us most is his ability to effectively communicate his long-range business vision, and then have the skill to turn that vision into reality. His experience and attention to detail have allowed the company to grow and take advantage of rapid changes in the business environment, while always staying focused on delivering a superior client experience."

With energy costs reduced substantially and business flourishing, TurnKey has doubled the number of employees, continued to add clients from around the world and maintained double-digit growth, predicted at 35 percent for 2013.


Philip Engborg of M&T Bank, Adam Wills of TurnKey Internet and Tom Reynolds of NYBDC

# Scholet Furniture

## Oneonta, New York

The Scholet family has been selling furniture in New York's Mohawk Valley since 1934 when the grandfather of current owner Arthur Scholet bought a furniture store in Cobleskill that had been in operation since 1882.

Arthur Scholet has spent nearly his entire career in the business, except for the first year following his graduation from college when he worked as a teacher. He assisted his father in managing the daily operations of the business from 1972 to 1984 when he then became president of the company, which has stores in Norwich, Cobleskill and Oneonta.

In 2012, Scholet saw an opportunity he could not pass up. A major competitor, the owner of Drogen's Furniture, was getting ready to exit the furniture business and his property in Oneonta was for sale. The location on State Highway 23, in the middle of the primary commercial district in the city, was ideal for expanding Scholet Furniture.

"The decision to purchase the location of Drogen's Furniture provided Scholet Furniture with a larger and more highly trafficked location," said Ross Pancoe, vice president of NYBDC, who helped secure the necessary financing for the purchase and renovations to the property.

Working with Geoffrey Rightmyer of NBT Bank, Pancoe put together a $3,798,900 financing package for the purchase and improvement of the 32,340-square-foot building.

"The relocation and expansion plans made excellent business sense to us. By partnering with NYBDC, we were able to provide attractive financing terms and maintain and expand our longstanding relationship with Scholet Furniture," said Rightmyer. "In partnership with NYBDC and The 504 Company, NBT was able to provide 90 percent financing for Mr. Scholet's relocation and expansion, preserving valuable working capital for inventory expansion."

"This project is a great example of how creatively the 504 program can be utilized," Pancoe said. "Arthur Scholet purchased and renovated a larger location with no money down through the use of the 504 program. In lieu of cash equity, The 504 Company took a mortgage on another Scholet Furniture store, which allowed it to utilize the equity in that location for the equity needed to acquire and renovate the new location. Without this structure it would have been difficult for Mr. Scholet to take advantage of this great opportunity, let alone have the cash needed to buy additional inventory and grow the business with this new larger location."

Scholet said the experience working with NYBDC and NBT Bank was very smooth. "I would encourage others to pursue a 504 loan through The 504 Company. You're able to fix a very attractive rate for a very long time."

With renovations to the building, including an enhanced storefront with larger windows, complete, Scholet said sales are growing and he's added seven new employees. "Oneonta is growing as an economic center and we have a great position right next to the mall, so we have a pretty bright future."


Jamie Reynolds of NBT Bank, Arthur Scholet of Scholet Furniture, Ross Pancoe of NYBDC and Geoffrey Rightmyer of NBT Bank


# The Vine Wine Bar

## Merrick, New York

Lynn Mione always dreamed of being a business owner. Little did she know that her love of wine and NYBDC would help make that dream come true.

The Vine Wine Bar is an upscale drinking establishment with a knowledgeable and attentive staff and an unpretentious atmosphere. The menu includes more than 60 varietals of wine – sold by the glass, by the bottle and in flights – from around the world (including Long Island), as well as beer, non-alcoholic beverages and an assortment of appetizers, light meals and desserts.

Mione stresses that one of the reasons for The Vine Wine Bar's success is that the staff embraces the difference between selling a product and helping create an experience. Staff members are encouraged to share their own preferences with patrons and to pass on what they've learned. "It's about starting a conversation," said Mione. "Every time the customer comes back, they can have a completely different experience."

Although Mione had no direct management experience in food or hospitality, she has years of experience from her work in retail management at international clothing companies. When she first started making inquiries about financing, she hit a few road blocks based on the start-up nature of the business and the hospitality aspect; it didn't matter that in addition to her years of experience, Mione had an established income and substantial assets to invest in the project.

NYBDC understood the risks, but also saw the potential.

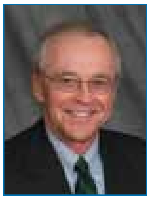
NYBDC helped Mione secure the additional $100,000 in funding to open The Vine Wine Bar in 2010. As business continued to grow, Mione received approval for an additional loan and is working to expand into an adjacent storefront to meet the increasing demand for private parties and to host larger crowds for wine tastings, musical performances and popular psychic nights.

"NYBDC gets it. They help you achieve your goals," said Mione. "If your business plan is buttoned up, if your numbers line up, if contributions are in place, NYBDC helps pull all of the pieces together. You don't want just a lender, you want a partner. NYBDC is that partner."

"Lynn has built a profitable business, but, more importantly, she has built a community at The Vine Wine Bar," said Steven Willard, NYBDC senior vice president, who helped her secure the financing. "It is exciting to see the business expanding to meet the needs of its customers, but also to see that Lynn uses the business as a platform to give back to that community. Shortly after opening the business, Lynn lost her mother to cancer. Rather than succumb to such a loss, Lynn rose to the challenge and uses the business to host fundraisers and raise awareness."

With the additional space and a growing staff, Mione plans to stay the course for another three years and then consider opening another location using the same business model. With the correct partners and locations, Mione thinks that The Vine Wine Bar "could become the adult beverage version of Starbucks."

# NYBDC Foundation Board of Directors



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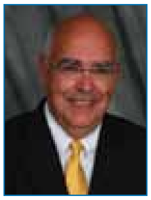

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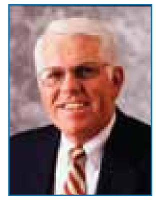

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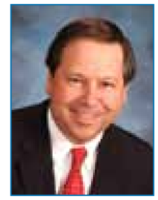

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# Chairman's Leadership Award

## The Honorable Thomas P. DiNapoli
## New York State Comptroller

NYBDC Chairman James Byrnes and New York State Comptroller Thomas DiNapoli

The Chairman's Leadership Award was presented to Thomas P. DiNapoli, Comptroller, State of New York.

Comptroller DiNapoli was recognized for his unwavering support of NYBDC's lending efforts to small businesses, as well as his encouragement of venture and early stage funds to spur entrepreneurial development, and careful and consistent attention to the fiscal condition of our state.

Since 1987, the New York State Common Retirement Fund has allocated $400 million to be used for loans for New York State-based small businesses through NYBDC. NYBDC has made $324 million in loans to more than 1,000 small businesses around the state.

Since taking office in 2007, DiNapoli has increased the total amount of funds available to NYBDC by $100 million. The program has granted loans to small businesses in all 62 counties and helped businesses across the state retain or create more than 20,000 jobs.

*"NYBDC has always been a strong partner with a deep understanding and commitment to small businesses and the capital needed to succeed. This past year after Hurricane Sandy, NYBDC went above and beyond to work with the City to quickly get funding to impacted businesses working to rebuild. Together, we have approved more than $20 million in loans and matching grants, and are now working to get out even more money through a new loan and matching grant program."*

*Robert W. Walsh*
*Commissioner*
*New York City Department of Small Business Services*

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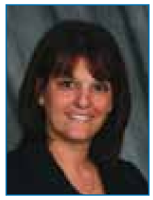

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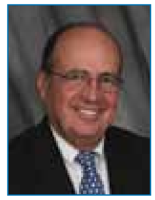

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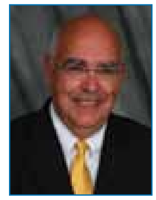

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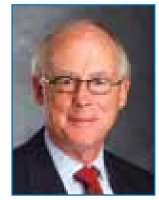

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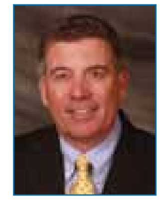

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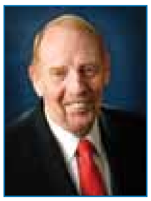

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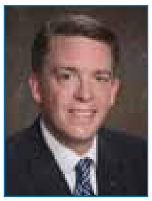

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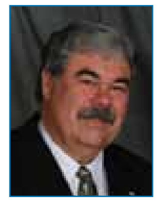

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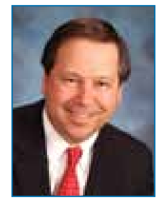

**Jeffrey M. Levy**
*President of Commercial Banking*
*NBT Bank*
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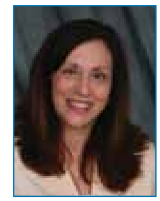

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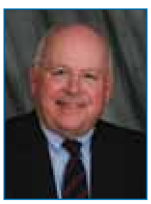
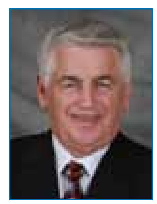


**Alfred F. Luhr, III**
*Senior Vice President*
*M&T Bank*
*Amherst, New York*

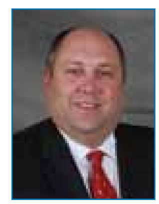
**Carl E. Meyer**
*President & CEO*
*The Solar Energy Consortium*
*Kingston, New York*

**Mark D. Morrison**
*Senior Vice President*
*KeyBank*
*Albany, New York*

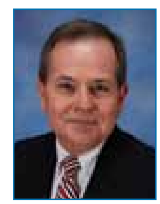
**John Murgatroyd**
*Vice President*
*TD Bank*
*Flemington, New Jersey*



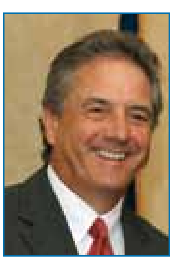
**Noel Murphy**
*President*
*Celtic Tours*
*Albany, New York*



**Charles F. Ryan**
*Senior Vice President*
*HSBC Bank USA*
*New York, New York*



**Robert K. Streb**
*Vice President*
*JPMorgan Chase*
*Shelton, Connecticut*



*"At SBA we put great emphasis on our partnerships. Without strong partnerships like the one we have with NYBDC, small businesses do not get the help they need to grow and create jobs here in New York. Access to our loan products and services in many cases can be the difference between success and failure. Together we continually strive to seek out new and improved ways to meet the ever-changing needs of small businesses which are vital to our local economy and our way of life."*

*Bernard J. Paprocki*
*U.S. Small Business Administration*
*Acting Regional Administrator*

# NYBDC Stockholders

Adirondack Trust Company
Ballston Spa National Bank
Bank of America
Bank of Castile
Bank of Greene County
Bank of New York Company, Inc.
Barclays Bank
Berkshire Bank
Capital One Bank
Cattaraugus County Bank
Central Hudson Gas & Electric Corp.
Chamber of Commerce of Orange County
Chemung Financial Corporation
Chenango County Chamber of Commerce, Inc.
Citizens Bank
Citizens Communications
Columbian Mutual Life Insurance Company
Combined Life Insurance Company of New York
Community Bank
Council of Industry
Delaware & Hudson Railway Company
Delaware National Bank of Delhi
Drof and Company
Elmira Savings Bank
Federal Deposit Insurance Corp. (FDIC)
Finch, Barbara L.S.
First Niagara Bank
Flushing Bank
Fulton Savings Bank
Gleacher & Company, Inc.
Glens Falls National Bank & Trust Company
Global Crossing North America, Inc.
Greater Binghamton Chamber of Commerce
Guardian Life Insurance Company
Homestead Financial Services
Hope Gas, Inc.
HSBC Bank USA
Jeffersonville Bancorp
Joseph Davis, Inc.
JP Morgan Chase Bank
JP Morgan Chase Community Development Corporation
KeyBank
KeyCorp
Lincoln First Real Estate Credit Corporation
Manufacturers & Traders Trust Company
Mohawk Valley Chamber of Commerce
Montgomery County Chamber of Commerce
National Bank of Delaware County
National Grid
NatWest Equity Corp.
NBT Bank
New York Life Insurance Company
New York State Electric & Gas Corp.
Northeastern New York Community Trust
NYSEG Retirement Benefit Plan
Orange County Trust Company
PathFinder Bank
Phoenix Home Life Mutual Insurance Company
Pleasant Valley Wine Company
Procter & Gamble Pharmaceuticals, Inc.
Provident Bank
ReliaStar Life Insurance Company
Rochester Business Alliance
Rochester Gas and Electric Corporation
Security Mutual Life Insurance Company of New York
Shults, David A.
Sovereign Bank
Starwood Hotels & Resorts Worldwide, Inc.
Steuben Trust Company
TD Bank
Teachers Insurance & Annuity Association of America
Tioga State Bank
Tompkins Trust Company
Ulster Savings Bank
Valley National Bank
Verizon Communications
Wells Fargo

# Lender of the Year

MAHOPAC NATIONAL BANK
*A Tompkins Community Bank*

*This banker has worked extensively and creatively with NYBDC to promote access to capital for New York's small businesses.*

*William G. Dunkel*
*Vice President*
*Mahopac National Bank*

*"Bill has been an integral part of the development of Putnam County and the lower Hudson Valley. He has provided access to capital to many in his community through his confidence in the SBA and partnership with NYBDC. We look forward to our continued partnership with Bill and Mahopac National Bank."*

*Gregory J. Powell*
*Assistant Vice President*
*NYBDC*

# NYBDC Corporate Officers

**James J. Byrnes**
*Chairman of the Board*

**Bruce W. Boyea**
*Vice Chairman*

**Patrick J. MacKrell**
*President & Chief Executive Officer*

**Nancy A. Reinhart**
*Executive Vice President & Chief Administrative Officer*

**Andrew M. Linehan**
*Executive Vice President & Senior Loan Officer*

**Owen F. Burns IV**
*Senior Vice President & Chief Financial Officer*

**Leesa Naimo-Fredette**
*Senior Vice President & General Counsel*

**James J. Conroy III**
*Senior Vice President*

**James J. Goldrick**
*Senior Vice President*

**Thomas K. McHale**
*Senior Vice President*

**Chester A. Sadowski**
*Senior Vice President*

**Michael A. Taylor**
*Senior Vice President*

**Steven M. Willard**
*Senior Vice President*

**Michael G. Zihal**
*Senior Vice President*

**Richard Amsterdam**
*Vice President*

**Cedric A. Carter**
*Vice President*

**John J. Hogan III**
*Vice President*

**Hosheus D. Isaac**
*Vice President*

**John T. King**
*Vice President*

**Timothy C. Larson**
*Vice President*

**Kevin G. O'Leary**
*Vice President*

**Amy Oates**
*Vice President*

**Ross Pancoe**
*Vice President*

**David T. Reaske**
*Vice President*

**Jeffrey B. Reid**
*Vice President*

**Thomas Reynolds**
*Vice President*

**Christine A. Saunders**
*Vice President*

**Pennie L. Smith**
*Vice President*

**Daniel Vaccaro**
*Vice President*

**Linda Zou**
*Vice President*

**Kathleen M. Russom**
*Secretary*

**Cheryl Antalek**
*Assistant Vice President*

**Nicoleta Augustin**
*Assistant Vice President*

**Brittany Bernhoft**
*Assistant Vice President*

**Timothy Brosnan**
*Assistant Vice President*

**Brian Bund**
*Assistant Vice President*

**Jonathan Dare**
*Assistant Vice President*

**Paola Garcia**
*Assistant Vice President*

**David B. Hanold**
*Assistant Vice President*

**Arami Jung**
*Assistant Vice President*

**Christina Lopez**
*Assistant Vice President*

**Sabrina N. Morton**
*Assistant Vice President*

**Justin Nadeau**
*Assistant Vice President*

**Wendy Ng**
*Assistant Vice President*

**Yahaira M. Núñez**
*Assistant Vice President*

**Gregory J. Powell**
*Assistant Vice President*

**Robert Root**
*Assistant Vice President*

**Yurinha Schmidt**
*Assistant Vice President*

**Rachel A. Wade**
*Assistant Vice President*

**Thomas Green**
*Assistant Treasurer*

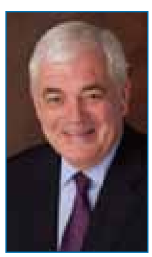
**Joanne S. Karmazyn**
*Assistant Secretary*

**Diane J. McDonald**
*Assistant Secretary*

**Deborah A. Mercora**
*Assistant Secretary*

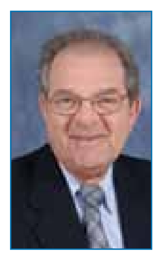
*"In a flat economy, NYBDC has been a tower of strength for New York's small businesses. It is the 'small business solution' for business owners trying to grow or rebuild. NYBDC's strength is its hard working professional staff and the resources and leadership provided by its member banks. Whether struggling to recover from a natural disaster or fighting to increase market share, NYBDC is there for small businesses with a helping hand and capital to grow."*

*Brian McMahon*
*Executive Director*
*New York State Economic Development Council*



*"The New York Bankers Association and the NYBDC have enjoyed a very successful partnership over the years, highlighted most recently by our collaboration in the wake of SuperStorm Sandy. This effort certifies the vital mission of both organizations and the delivery power of the NYBDC."*

*Michael P. Smith*
*President & CEO*
*New York Bankers Association*



*"Among small business lenders, NYBDC stands out as a one-of-a kind innovator, offering a financing program for small businesses with long-term, fixed-rate financing for the acquisition of major fixed assets for expansion and modernization. In Buffalo, this fixed-asset financing program saw an increase in lending with 41 approvals for over $21 million. Again, with the support of NYBDC, these projects alone supported nearly 1,100 jobs in our local economy. It is no secret how important small business is to the vitality of Western New York."*

*Franklin J. Sciortino*
*U.S. Small Business Administrator*
*Buffalo District Director*

## COMBINED STATEMENTS OF FINANCIAL CONDITION – September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Loans receivable | $206,614,689 | $181,761,058 |
| Less allowance for loan losses | (6,147,280) | (6,171,311) |
| Net loans receivable | 200,467,409 | 175,589,747 |
| Cash | 238,942 | 203,783 |
| Restricted cash | 6,530,656 | 1,461,142 |
| Accrued interest receivable | 913,894 | 890,380 |
| Investments | 2,212,052 | 1,896,529 |
| Deferred tax benefit | 3,082,465 | 3,081,183 |
| Other assets | 2,257,472 | 1,867,351 |
| | $215,702,890 | $184,990,115 |
| **Liabilities and Equity** | | |
| **Liabilities** | | |
| Notes payable: | | |
| Members | $40,054,737 | $ 24,994,737 |
| New York State Common Retirement Fund | 77,447,793 | 79,728,513 |
| Bank and other lines of credit | 22,482,762 | 28,992,182 |
| Bank term loans | 16,540,555 | 17,519,910 |
| Other obligations | 27,096,307 | 4,381,429 |
| Total notes payable | 183,622,154 | 155,616,771 |
| Accrued interest payable | 435,811 | 425,468 |
| Accrued expenses and other liabilities | 5,002,098 | 4,165,084 |
| Total liabilities | 189,060,063 | 160,207,323 |
| **Equity** | | |
| Capital stock, no par value, authorized 500,000 shares; issued and outstanding 217,444 shares, $5 stated value per share | 1,087,220 | 1,087,220 |
| Paid-in capital | 3,572,955 | 3,572,955 |
| Retained earnings | 17,050,418 | 16,044,515 |
| Accumulated other comprehensive income | 71,160 | 66,255 |
| Total stockholders' equity | 21,781,753 | 20,770,945 |
| Net assets of Empire State Certified Development Corporation | 4,861,074 | 4,011,847 |
| Total equity | 26,642,827 | 24,782,792 |
| | $215,702,890 | $184,990,115 |

**See Notes to Combined Financial Statements**

## COMBINED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME – Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Interest income | $11,266,069 | $11,057,906 |
| Interest expense | 5,084,610 | 5,457,441 |
| Net interest income | 6,181,459 | 5,600,465 |
| Provision for loan losses | 109,523 | 54,377 |
| Net interest income after provision for loan losses | 6,071,936 | 5,546,088 |
| Fees and other income | 11,730,523 | 10,251,763 |
| Income before operating expenses | 17,802,459 | 15,797,851 |
| Operating expenses: | | |
| Salaries and employee benefits | 8,951,786 | 7,988,436 |
| Other expenses | 5,238,431 | 4,661,934 |
| Total operating expenses | 14,190,217 | 12,650,370 |
| Income before provision for income taxes | 3,612,242 | 3,147,481 |
| Provision for income taxes | 1,517,923 | 1,062,058 |
| Net income | 2,094,319 | $ 2,085,423 |
| Other comprehensive income | | |
| Net unrealized gains on investment securities available for sale, net of tax | 4,905 | 54,880 |
| Comprehensive income | $2,099,224 | $2,140,303 |

**See Notes to Combined Financial Statements**

## COMBINED STATEMENTS OF CHANGES IN EQUITY – Years Ended September 30, 2013 and 2012

| | Capital Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Equity | ESCDC Net Assets | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at October 1, 2011 | $1,084,375 | $3,525,074 | $14,713,833 | $11,375 | $19,334,657 | $3,485,423 | $22,820,080 |
| Net income: | | | | | | | |
| New York Business Development Corporation | – | – | 1,558,999 | – | 1,558,999 | – | 1,558,999 |
| Empire State Certified Development Corporation | – | – | – | – | – | 526,424 | 526,424 |
| Change in unrealized gains on investments (net of related income tax benefit) | – | – | – | 54,880 | 54,880 | – | 54,880 |
| Total comprehensive income | | | | | 1,613,879 | 526,424 | 2,140,303 |
| Dividend declared | | | (228,317) | – | (228,317) | – | (228,317) |
| Redemption of capital stock (431 shares) | (2,155) | (36,269) | – | – | (38,424) | – | (38,424) |
| Issuance of capital stock (1,000 shares) | 5,000 | 84,150 | | | 89,150 | – | 89,150 |
| Balance at September 30, 2012 | 1,087,220 | 3,572,955 | 16,044,515 | 66,255 | 20,770,945 | 4,011,847 | 24,782,792 |
| Net income: | | | | | | | |
| New York Business Development Corporation | – | – | 1,245,092 | – | 1,245,092 | – | 1,245,092 |
| Empire State Certified Development Corporation | – | – | – | – | – | 849,227 | 849,227 |
| Change in unrealized gains on investments (net of related income tax benefit) | – | – | – | 4,905 | 4,905 | – | 4,905 |
| Total comprehensive income | | | | | 1,249,997 | 849,227 | 2,099,224 |
| Dividend declared | – | – | (239,189) | – | (239,189) | – | (239,189) |
| Balance at September 30, 2013 | $1,087,220 | $3,572,955 | $17,050,418 | $71,160 | $21,781,753 | $4,861,074 | $26,642,827 |

**See Notes to Combined Financial Statements**

### NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Organization:** In 1955, by a special act, the New York State Legislature created New York Business Development Corporation (NYBDC). In 1981, Empire State Certified Development Corporation (ESCDC), an affiliate of NYBDC through common management, was organized, pursuant to Section 402 of the Not-for-Profit Laws of the State of New York, to assist business concerns through financings under the U.S. Small Business Administration's Certified Development Company (Sections 503 and 504) Program.

NYBDC is also associated with Statewide Zone Capital Corporation of New York (Statewide), a privately-owned loan and investment fund, organized in 1999, whose capital is available to promote the expansion and growth of businesses in New York. The operations of Statewide are managed by NYBDC, which also owns approximately 1.5% of Statewide's outstanding common stock. NYBDC's investment in Statewide is accounted for under the cost method of accounting. As more fully disclosed under Note 9, during the current year, Statewide adopted a plan of dissolution.

Together, NYBDC, ESCDC and Statewide act as a complement to banks in providing long-term working capital, equipment, and real estate loans to a variety of businesses located in New York State, either in participation with, or as an adjunct to, the banking industry. NYBDC's loans are generally disbursed in amounts up to $2.0 million and are secured by borrowers' assets and, in some instances, U.S. Small Business Administration (SBA) guarantees. A borrower's creditworthiness is evaluated on a case-by-case basis, with the amount of collateral obtained based upon management's credit evaluation of the borrower. Interest rates are either fixed or variable, and maturities range up to 20 years, depending upon the purpose of the loan.

**Reporting Policy:** The combined financial statements include the accounts of NYBDC, ESCDC and New Turnpike Realty Corporation, a wholly owned subsidiary of NYBDC which, from time to time, is utilized as a real estate holding company. (These entities are collectively referred to as the "Company"). All material intercompany accounts and transactions have been eliminated.

**Loans and Allowance for Loan Losses:** Loans receivable are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is calculated utilizing the simple interest method. Accrual of interest is discontinued on a loan at such time as management believes, after considering economic/business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Impaired loans, or loans for which it is probable the Company will be unable to collect all contractual principal and interest payments, are generally recorded at the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral. Interest payments received on such loans are applied as a reduction of the loan principal balance. A portion of the loan portfolio is designated as a Portfolio Collateral Account and is pledged against certain borrowings (see Note 4).

The allowance for loan losses is an amount that management believes will be adequate to absorb losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and amount of the loan portfolio, overall portfolio quality, review of specific problem loans, current economic conditions that may affect the borrowers' ability to pay, collateral, and the extent of SBA guarantees.

The allowance for loan losses consists of specific valuation allowances based on probable losses on specifically identified impaired loans generally determined based on collateral values or the present value of estimated cash flows; and general valuation allowances based on net historical loan loss experience for similar loans with similar characteristics and trends adjusted as appropriate for risk factors specific to the respective loan types. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

**Restricted Cash:** Restricted cash, which includes money market cash equivalents, is principally comprised of net draw downs and borrower loan payments pending disbursement under the New York State Common Retirement Fund Loan (see Note 4). Such cash is designated as the Uninvested Collateral Account and pledged against these borrowings.

**Investments:** The Company's investments consist of equity securities of publicly traded and privately held companies (see Note 3). The Company's investments in publicly traded equity securities are classified as available-for-sale. These investments are recorded at fair value with the unrealized gains and losses included as a separate component of stockholders' equity – accumulated other comprehensive income, net of tax. The investments in equity securities of privately held companies, all of which the Company holds less than a 20% voting interest and on which the Company does not have the ability to exercise significant influence, are accounted for using the cost method. Under the cost method, these investments are carried at the lower of cost or fair value. The Company recognizes an impairment charge when a decline in the fair value of its investments, below the cost basis, is judged to be other-than-temporary.

**Other Assets:** Other assets include furniture and equipment, prepaids, and certain other assets.

**Fees and Other Income:** Fees and other income are principally derived from servicing and processing fees earned by ESCDC (approximating $9,329,000 and $8,499,000 in the fiscal years ended September 30, 2013 and 2012, respectively), fees paid by Statewide (approximating $256,000 and $263,000 in the fiscal years ended September 30, 2013 and 2012, respectively), and certain closing fees (approximating $754,000 and $580,000 in the fiscal years ended September 30, 2013 and 2012, respectively). Fees are recognized as revenue at the time the related services are performed by the Company.

| | 2013 | 2012 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | **$2,094,319** | $2,085,423 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | **123,569** | 101,307 |
| Provision for loan losses | **109,523** | 54,377 |
| Deferred tax benefit | **(1,282)** | (75,831) |
| Changes in: | | |
| Other assets | **(341,971)** | 357,791 |
| Other liabilities | **836,485** | (476,700) |
| Net cash provided by operating activities | **2,820,643** | 2,046,367 |
| **Cash Flows From Investing Activities** | | |
| Loans disbursed, net of participations | **44,192,443** | (38,023,970) |
| Loan payments received | **(69,179,628)** | 27,558,775 |
| Change in restricted cash | **(5,069,514)** | 4,101,169 |
| Changes in other assets | **(505,851)** | (402,634) |
| Net cash used in investing activities | **(30,562,550)** | (6,766,660) |
| **Cash Flows From Financing Activities** | | |
| Net borrowings on bank and other lines of credit | **18,427,085** | 20,742,182 |
| Borrowings under notes, loans and other obligations | **42,985,308** | 24,121,730 |
| Repayments under notes, loans and other obligations | **(33,407,010)** | (39,984,833) |
| Issuance of capital stock | **–** | 89,150 |
| Redemption of capital stock | **–** | (38,424) |
| Dividends paid | **(228,317)** | (216,875) |
| Net cash provided by financing activities | **27,777,066** | 4,712,930 |
| **Net change in cash** | **35,159** | (7,363) |
| **Cash, beginning of year** | **203,783** | 211,146 |
| **Cash, end of year** | **$238,942** | $ 203,783 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash payments for: | | |
| Interest | **$5,074,267** | $5,514,239 |
| Income taxes | **$1,469,300** | $1,195,246 |

See Notes to Combined Financial Statements

### NOTE 1 — *continued*

**Income Taxes:** Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes using the asset and liability method of accounting for income taxes (see Note 5). Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax reporting purposes. These differences, which primarily relate to the future tax benefits associated with recording loan losses, also include amounts attributable to certain employee benefits and deferred compensation. Deferred tax benefit (an asset account) represents the net future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets are adjusted through the provision for income taxes.

**Other Comprehensive Income:** Other comprehensive income consists of net income and other gains and losses affecting equity that, under generally accepted accounting principles, are excluded from net income. For the Company, such items are comprised principally of unrealized gains and losses on certain securities available for sale, net of applicable income taxes.

**Use of Estimates and Assumptions:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications:** Certain items in the 2012 financial statements have been reclassified to conform with the current year presentation.

**Subsequent Events:** Subsequent events have been evaluated through November 4, 2013, the date the financial statements were available to be issued.

### NOTE 2 — LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable, as presented on the combined statements of financial condition, consist of the following:

| | September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Loans receivable | $315,668,139 | $278,835,895 |
| Less participations sold | (109,053,450) | (97,074,837) |
| | 206,614,689 | 181,761,058 |
| Less allowance for loan losses | (6,147,280) | (6,171,311) |
| Loans receivable, net | $200,467,409 | $175,589,747 |

When applicable, the allowance for loan losses account is increased by a provision for loan losses, which is charged to expense, and reduced by losses, net of recoveries. Because of uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance is subject to change, and the amount of such change is not reasonably possible to estimate.

A schedule of the changes in the allowance for loan losses account follows:

| | September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Balance, beginning of year | $6,171,311 | $6,295,018 |
| Provision for loan losses (attributable to ESCDC) | 109,523 | 54,377 |
| Recoveries credited to the allowance | 40,013 | 108,117 |
| Losses charged to the allowance | (242,009) | (286,201) |
| Other adjustments | 68,442 | – |
| Balance, end of year | $6,147,280 | $6,171,311 |

The following table presents the balance in the allowance for loan losses and the recorded investment in loans receivable based on impairment evaluation method:

| | September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Allowance for loan losses | | |
| Individually evaluated for impairment | $ 1,505,400 | $ 1,051,100 |
| Collectively evaluated for impairment | 4,641,880 | 5,120,211 |
| Balance, end of year | $ 6,147,280 | $ 6,171,311 |
| Loans | | |
| Individually evaluated for impairment | $ 21,386,102 | $ 21,155,510 |
| Collectively evaluated for impairment | 185,228,587 | 160,605,548 |
| Balance, end of year | $206,614,689 | $181,761,058 |

The following tables present Information about impaired loans:

| September 30, 2013 | | | | |
|---|---|---|---|---|
| Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| $1,537,289 | $1,537,289 | $333,000 | $1,962,975 | $0 |

| September 30, 2012 | | | | |
|---|---|---|---|---|
| Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| $2,388,660 | $2,388,660 | $412,000 | $2,855,284 | $58,694 |

The following table presents an aging analysis of loans receivable:

| September 30, 2013 | | | | | |
|---|---|---|---|---|---|
| 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans |
| $862,608 | $661,165 | $14,705,280 | $16,229,053 | $190,385,636 | $206,614,689 |

| September 30, 2012 | | | | | |
|---|---|---|---|---|---|
| 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Current | Total Loans |
| $1,180,630 | $3,229,608 | $11,465,093 | $15,875,331 | $165,885,727 | $181,761,058 |

Loans on which the accrual of interest has been discontinued approximated $11,409,000 (or $6,614,000, net of SBA guarantees) and $11,465,000 (or $6,582,000, net of SBA guarantees) at September 30, 2013 and 2012, respectively.

The Company has an internal grading system to help evaluate and quantify the Company's loan portfolio with respect to credit quality and risk. Management reviews loans on a regular basis and categorizes them into risk categories based on relevant information about the ability of the borrowers to service their debt. In evaluating the ability of borrowers to service their debt consideration is given to items such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

Management provides for the classification of loans which are considered to be of lesser quality as substandard, doubtful, or loss (classified loans). Management considers a loan substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans, which have a well defined weakness that jeopardizes liquidation of the loan, include those loans where there is the distinct possibility that the Company will sustain some loss of principal if the deficiencies are not corrected. Loans that are classified as doubtful have all of the weaknesses inherent in those loans that are classified as substandard, but also have the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans that management classifies as loss are those considered uncollectible and of such little value that their continuance as an asset is not appropriate and the uncollectible amounts are charged off. Loans that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weakness and deserve management's close attention, are designated as special mention.

If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risks to warrant classification. Commercial loans not meeting the above criteria are considered to be pass rated loans.

The following table presents information pertaining to the credit risk profile of loans at September 30, 2013, aggregated by risk category:

| | September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Grade | | |
| Pass | $129,326,701 | $112,059,560 |
| Special Mention | 55,265,088 | 45,593,888 |
| Substandard | 18,408,427 | 20,958,335 |
| Doubtful | 3,614,473 | 3,149,275 |
| Total | $206,614,689 | $181,761,058 |

ESCDC loans serviced for the SBA have no loan loss exposure and are not included in the accompanying statements of financial position. The unpaid principal balance on these loans approximated $936.8 million and $863.4 million at September 30, 2013 and 2012, respectively.

## NOTE 3 — INVESTMENTS

Investments include both marketable equity securities and non-marketable investments approximating $2,212,000 and $1,896,000 at September 30, 2013 and 2012, respectively. Non-marketable equity investments include the Company's investment in Statewide (approximating $260,000 and $288,000 at September 30, 2013 and 2012, respectively) and other private equity investments which are accounted for under the cost method.

Marketable securities, which are principally held as a funding offset for the Company directors' deferred compensation plan, include approximately $1,463,000 in marketable debt and equity securities valued at quoted market prices. At both September 30, 2013 and 2012, the fair value of the Company's marketable securities approximated the corresponding liability under these plans. Accordingly, the Company bears no risk of loss in holding its marketable securities.

Generally Accepted Accounting Principles for fair value measurements defines fair value, establishes a framework for measuring fair value, and provides disclosures about fair value measurements. Fair value measurements emphasize that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing an asset or liability.

Fair value measurement accounting establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is classified into three general levels: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs include data points that are observable, such as quoted prices for similar assets in active markets and quoted prices for identical assets or similar assets in markets that are not active; and Level 3 inputs are unobservable data points for the asset, and include situations where there is little, if any, market activity for the asset.

Investments, as presented on the Combined Statements of Financial Position, consist of the following:

| | September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Marketable securities classified as Level 1 | $1,463,541 | $1,277,042 |
| Non-marketable equity securities, at cost | 748,511 | 619,487 |
| | $2,212,052 | $1,896,529 |

As more fully disclosed under Note 7, certain other financial assets and financial liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

## NOTE 4 — NOTES PAYABLE

### Member Borrowings

Members consist principally of banks which have applied for membership and have been accepted by NYBDC's Board of Directors. Many members are also stockholders of NYBDC. Funds are obtained from members who, at the time they become members, agree to lend money to NYBDC upon call, subject to limits provided in the basic legislation which established the Company. The loan limit available from members was approximately $59 million at September 30, 2013.

Calls on members are made for maturities of one year with the September 30, 2013 outstanding loan balances maturing August 1, 2014. Interest is payable twice a year, on February 1 and August 1. Member borrowings generally provide for interest at the lowest prime commercial rate or 50 to 275 basis points above the 30 day LIBOR (London Interbank Offered Rate). At September 30, 2013, the interest rates paid to members ranged from .68% to 3.25%. All member loans are unsecured.

### New York State Common Retirement Fund Borrowings

NYBDC has entered into three loan agreements (the most recent of which was effective in April 2011) with the New York State Common Retirement Fund (the "Fund") under which the Fund has made available to NYBDC an aggregate principal amount not to exceed $300,000,000. The proceeds of these loans may be used by NYBDC to extend credit to small businesses operating in the State of New York.

Under the agreements, borrowings under the loans bear interest at the following annual rate: (i) the aggregate of the 30-day net yield on the "Vision Treasury Money Market Fund" on uninvested funds and (ii) between 0.50% and 1.50% (principally dependent upon the nature of the SBA involvement) over the applicable treasury note rate for comparable original maturities, on the principal amount of each outstanding loan (the Portfolio Collateral Account). At September 30, 2013, the interest rates paid to the Fund ranged from 1.53% to 6.70%.

At September 30, 2013 and 2012, the outstanding balances on these loans were $77,447,793 and $79,728,513, respectively. The principal payments on the loans generally parallel the underlying loan repayments between NYBDC and its borrower (over a maximum of 15 years).

The loans are collateralized by NYBDC's right, title and interest in both the Uninvested Collateral Account and the Portfolio Collateral Account. In addition, the loan agreements provide for various restrictive covenants, such as restrictions on incurring new secured indebtedness or liens (except for certain office equipment and furniture), restrictions on the payment of dividends, and restrictions on providing any guarantees.

### Bank and Other Line of Credit Borrowings

NYBDC has available lines of credit with various banks (all of which are members and stockholders) and other economic development agencies totaling $51 million at September 30, 2013. The amounts outstanding on these lines at September 30, 2013 and 2012 were $22,482,763 and $28,992,182, respectively. The line of credit agreements, all of which are unsecured, are renewed annually and generally provide for interest at LIBOR based index rates. At September 30, 2013, the interest rates under available lines of credit ranged from 1.00% to 5.58%.

### Bank Term Borrowings

NYBDC has entered into agreements with three financial institutions, all of which are members and stockholders, which provide for various short and long-term borrowings. The overall cost of funds for these borrowings, the substantial portion of which provide for fixed rates, approximated 4.0% at September 30, 2013. The term agreements provide for total available credit of $30.9 million, of which amounts outstanding were $16,540,555 and $17,519,910 at September 30, 2013 and 2012, respectively. The agreements, with original terms ranging from 4 to 20 years, provide for annual principal reduction payments, dependent upon the amount of borrowings, which approximated $1.5 million in the year ended September 30, 2013. Future annual principal reduction payments, which will generally parallel the underlying loans between NYBDC and its borrowers, are scheduled to approximate $3.0 million in the year ended September 30, 2014.

## NOTE 4 – *continued*

### Other Obligations

In November 2012, NYBDC entered into an agreement with an unrelated corporate entity and certain economic development agencies to administer a special program which provides loans to victims of Hurricane Sandy. The obligations to these entities generally provide for interest at 1% per annum with repayment terms that parallel the underlying borrower loans. These obligations amounted to $24,936,505 at September 30, 2013. As administrator of the program, NYBDC has no loan loss exposure on these loans.

Other obligations also include advances from Statewide which relate to the initial funding requirements of Statewide's loans. These advances bear interest and provide for repayment terms which generally parallel Statewide's underlying loan terms.

## NOTE 5 — INCOME TAXES

The components of the provision for income taxes are as follows:

| | September 30 | |
|---|---|---|
| | 2013 | 2012 |
| Current taxes | | |
| Federal | $1,270,700 | $ 922,434 |
| State and city | 248,505 | 252,042 |
| Deferred tax (benefit) | (1,282) | (112,418) |
| Net provision | $1,517,923 | $1,062,058 |

As of September 30, 2013 and 2012, deferred tax assets, which are recognized for deductible temporary differences, principally related to the allowance for loan losses and deferred compensation and approximated $3,082,000 and $3,081,000, respectively. There were no deferred tax liabilities recognized for taxable temporary differences. Deferred tax assets are included as an asset in the combined statements of financial condition.

The differences between income taxes computed under federal statutory rates and effective rates is primarily attributable to state and city taxes, and certain tax adjustments.

NYBDC accounts for uncertain tax positions according to guidance issued by the Financial Accounting Standards Board. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold which an income tax position is required to meet before being recognized in the financial statements and applies to all tax positions. Each income tax position is assessed using a two step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

NYBDC believes that there are no tax positions taken or to be taken that would significantly increase or decrease unrecognized tax benefits within twelve months of the reporting date. None of NYBDC's or ESCDC's income tax returns are currently under examination by the Internal Revenue Service (IRS) or state authorities. However, fiscal years 2011 and later remain subject to examination by the IRS and New York State.

## NOTE 6 — EMPLOYEE BENEFIT PLANS

The Company maintains a salary reduction 401(k) plan and a Supplemental Executive Retirement Plan (SERP).

The salary reduction 401(k) plan allows employees to defer and contribute a portion of their salary into the plan with the employer matching the employees' contributions up to 6% and providing for certain profit sharing contributions, subject to limitations imposed by the Internal Revenue Service. The plan is funded on a current basis. The expense for the plan was approximately $613,000 and $598,000 for the years ended September 30, 2013 and 2012, respectively.

The SERP, a non-qualified plan, is intended to provide supplemental retirement benefits due to limitations imposed under the Internal Revenue Code. The computed benefit under the SERP, a component of accrued expenses on the Company's statements of financial condition, approximated $428,000 and $378,000 at September 30, 2013 and 2012, respectively. The expense for the SERP, a component of operating expenses on the Company's statements of operations and comprehensive income, was approximately $50,000 for each of the years ended September 30, 2013 and 2012, respectively.

The total expense for all Company employee benefit plans was approximately $663,000 and $648,000 for the years ended September 30, 2013 and 2012, respectively.

## NOTE 7 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Under Generally Accepted Accounting Principles disclosures are required for the estimated fair value of financial instruments. The estimated fair values shown in the following table represent management's estimate of values at which the various types of the Company's financial instruments could be exchanged in transactions between willing, unrelated parties. They do not necessarily represent amounts that would be received or paid in actual trades of specific financial instruments. Management's estimates and assumptions are inherently subjective and involve uncertainties and matters of significant judgment. Changes in assumptions could dramatically affect the estimated fair values:

| | September 30 (Dollars in Thousands) | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Recorded Amount | Fair Value | Recorded Amount | Fair Value |
| **Financial assets:** | | | | |
| Loans receivable, net | $204,467 | $189,543 | $175,560 | $172,008 |
| Cash | 239 | 239 | 204 | 204 |
| Restricted cash | 6,531 | 6,531 | 1,461 | 1,461 |
| Accrued interest receivable | 914 | 914 | 890 | 890 |
| **Financial liabilities:** | | | | |
| Notes payable | 183,622 | 174,438 | 155,617 | 151,778 |
| Accrued interest payable | 436 | 436 | 425 | 425 |

The specific estimation methods and assumptions used can have a substantial impact on the resulting fair values of financial instruments. Following is a brief summary of the significant methods and assumptions used in the previous table:

**Cash and Restricted Cash:** The fair value of cash and restricted cash approximates the recorded amounts.

**Loans Receivable:** For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

**Notes Payable:** The fair values of the Company's long-term fixed-rate borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable-rate, fixed-term borrowings approximate their recorded amounts.

**Accrued Interest:** The fair value of accrued interest approximates the recorded amounts.

## NOTE 8 — COMMITMENTS AND CONTINGENCIES

### Commitments with Off-Balance-Sheet Risk

In the normal course of business, NYBDC provides commitments to extend credit in order to meet the financing needs of its customers. These commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of financial condition.

Loan commitments are as follows at September 30, 2013:

| | Number of Loans | Amount |
|---|---|---|
| Loans authorized, but not fully disbursed to borrowers | 106 | $78,170,464 |
| Less estimated bank participations on loan commitments | – | (30,979,074) |
| Net outstanding loan commitments | 106 | $47,191,390 |

Commitments to extend credit represent obligations to lend to a customer as long as there is no violation of any condition established under the loan approval. Commitments generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

### Operating Lease Commitments

The Company occupies office facilities and leases certain office equipment under various operating lease agreements. Terms of the leases range from a month-to-month tenancy to a ten year commitment. At September 30, 2013, approximate future rent commitments due under leases with terms in excess of one year are as follows:

| Years Ending September 30 | Amount |
|---|---|
| 2014 | $528,000 |
| 2015 | 527,000 |
| 2016 | 543,000 |
| 2017 | 555,000 |
| 2018 | 573,000 |
| Thereafter | 797,000 |
| | $3,523,000 |

Total lease costs were approximately $524,000 and $460,000 for the years ended September 30, 2013 and 2012, respectively.

### Concentration of Credit Risk

The Company's loan portfolio consists primarily of real estate and similarly secured loans to small business borrowers throughout New York State. The borrower's ability to honor their loan agreements is, in part, dependent upon the State's economy.

## NOTE 9 — SUBSEQUENT EVENT

In September 2013, the Company's affiliate, Statewide Zone Capital Corporation (Statewide), adopted a plan of dissolution as a consequence of certain changes to its enabling legislation under New York State Law. Concurrent with the adoption of the plan, the Company and Statewide (which is not combined in the accompanying financial statements) entered into a Loan Purchase and Sale Agreement under which all of Statewide's performing loans, approximating $15.3 million, would be purchased by the Company in an amount equal to the principal portion of all loans and unpaid interest, net of an escrow reserve fund in the amount of $3 million. The transaction provides for the holdback of the escrow reserve, which is intended to fund any future Company losses and related costs arising from loans purchased under the Agreement, to be held by the Company in an unrestricted account. Statewide may be entitled to periodic distributions from the escrow reserve as the aggregate principal balance of the purchased loans declines to an amount which is less than the amount remaining in the escrow reserve.

This transaction closed subsequent to year-end, in October 2013, resulting in a net payment to Statewide in the approximate amount of $12.3 million. The accompanying combined financial statements have not been adjusted to give effect to this transaction.

UHY LLP Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
New York Business Development Corporation

### Financial Statements

We have audited the accompanying combined financial statements of New York Business Development Corporation, which comprise the combined statements of financial condition as of September 30, 2013 and 2012, and the related combined statements of operations and comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of New York Business Development Corporation as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Albany, New York
November 4, 2013

# Community Partners provide loan referrals to NYBDC

- Adirondack Economic Development Corporation
- Albany-Colonie Regional Chamber of Commerce
- Albany Local Development Corporation
- Amherst Industrial Development Agency
- Bronx Overall Economic Development Corp.
- Brooklyn Economic Development Corporation
- Brooklyn (Kings County) Hispanic Chamber of Commerce
- Broome County Industrial Development Agency
- Business Council of Westchester
- Catskill Watershed Corporation
- Cattaraugus Empire Zone Corporation
- Center for Economic Growth
- CenterState CEO
- Central New York Regional Planning & Development Board
- Chamber of Schenectady County
- City of Middletown Industrial Development Agency
- City of Mount Vernon Urban Renewal Agency
- Clinton County Area Development Corp.
- Community Development Corporation of Long Island, Inc.
- Cornell Agriculture & Food Technology Park
- Cortland County BDC-IDA
- County of Chautauqua Industrial Development Agency
- County of Orleans Industrial Development Agency
- County of Otsego Industrial Development Agency
- Development Authority of the North Country
- Dutchess County Economic Development Corporation
- East Williamsburg Valley Industrial Development Corporation
- Economic Development Corporation (Warren County)
- Economic Development Corporation for Erie County
- Essex County Industrial Development Agency
- Fulton County Chamber of Commerce
- Genesee County Economic Development Center
- Herkimer County Industrial Development Agency
- Hudson Development Corporation
- Jefferson County Industrial Development Corp.
- Livingston County Industrial Development Agency
- Local Development Corp of East New York
- Local Development Corporation of Laurelton, Rosedale and Springfield Gardens
- Lockport Industrial Development Agency
- Mohawk Valley Chamber of Commerce
- Mohawk Valley Economic Development Growth Enterprises Corp.
- Montgomery County Chamber of Commerce
- Montgomery County Economic Opportunity and Development
- Morris Park Local Development Corporation
- NFC Development Corp.
- New York State Small Business Development Centers
- Ogdensburg Growth Fund Development Corporation
- Ontario County Industrial Development Agency
- Orange County Business Development Corporation
- Orange County Partnership
- Putnam County Economic Development Corporation
- Queens Economic Development Corporation
- REDEC Relending Corporation
- Renaissance Economic Development Corporation
- Rensselaer County Industrial Development Agency
- Rensselaer County Regional Chamber of Commerce
- Rensselaer Gateway Develoment Corporation
- Rockaway Development & Revitalization Corp.
- Rockland Business Association
- Rockland Economic Development Corp.
- Rome Industrial Development Corp.
- Saratoga Economic Development Corp.
- Schenectady Economic Development Corporation
- Schoharie County Planning & Development Agency
- Schuyler County Partnership for Economic Development
- Seneca County Industrial Development Agency
- Southern Tier Economic Growth, Inc.
- Southwest Brooklyn Industrial Development Corp.
- Steuben County IDA
- Sullivan County Chamber of Commerce
- Sullivan County Partnership for Economic Development
- Tier Information & Enterprise Resources, Inc.
- Tioga County Economic Development & Planning
- Tompkins County Area Development, Inc.
- Ulster County Development Corp.
- Washington County Local Development Corporation
- Wayne County Industrial Development Agency
- West Brighton Community Local Development Corporation
- Westchester County Association Inc.
- Women's Enterprise Development Center, Inc.
- Women's Venture Fund, Inc.
- Wyoming County Industrial Development Agency
- Yates County Industrial Development Agency
- Yonkers Local Assistance Corp.
- Yonkers Local Development Corp.

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