

Job Development Investment Grant

Quarterly Report

Third Quarter 2010
July – September

Introduction

This report describes all Job Development Investment Grant (“JDIG”) awards made by the Economic Investment Committee (the “EIC”) during the third calendar quarter of 2010, as required by North Carolina General Statutes §143B-437.55(d). The report includes the name of each third quarter grantee, the results of the cost/benefit analysis considered by the EIC in making these awards, a description of each project, and the maximum grant amount payable under each such grant for the current fiscal year.

Summary of the Job Development Investment Grant Program

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

In considering whether or not to award a grant, the EIC conducts an extensive review and analysis of an application submitted by a proposed grantee, to determine whether its project meets the JDIG Program Statute¹ and Criteria², and particularly, whether the benefits of the project outweigh the costs to the State. The EIC considers both economic and fiscal impacts. The analysis of each project’s impact on net State revenue is conducted using a model developed by Dr. Mike Walden of North Carolina State University. The EIC seeks projects that are the most beneficial to the State, after considering a number of different evaluation factors enumerated in the JDIG Statute and Criteria. The EIC also considers these factors when deciding on the appropriate amount and term of an award.

JDIG Awards

As shown below in Table 1, the following grantees received grants in the third quarter of 2010: Brunswick Corporation (“Brunswick”); IBM Lender Business Process Services, Inc. (“LBPS”); Caterpillar, Inc. (“Caterpillar-Lee”); Caterpillar, Inc. (“Caterpillar-Forsyth”); Cree, Inc. (“Cree”); ABB, Inc. (“ABB”); and Timco Aerosystems, LLC (“Timco”).

Table 1.

| Company | County | County Tier Status |
|--|----------------------|--------------------|
| Brunswick Corporation | Craven | 2 |
| IBM Lender Business Process Services, Inc. | Durham | 3 |
| Caterpillar, Inc. | Lee | 2 |
| Caterpillar, Inc. | Forsyth | 3 |
| Cree, Inc. | Durham | 3 |
| ABB, Inc. | Mecklenburg and Wake | 3 |
| Timco Aerosystems, LLC | Davidson | 2 |

¹ § 143B-437.50 et. seq. Available at <http://www.nccommerce.com/en/BusinessServices/LocateYourBusiness/WhyNC/Incentives/Job+Development+and+Investment+Grant/>

² Criteria for Operation and Implementation of Job Development Investment Grant Program, available at <http://www.nccommerce.com/en/BusinessServices/LocateYourBusiness/WhyNC/Incentives/Job+Development+and+Investment+Grant/>

Project Impacts and Cost/Benefit Analysis

Table 2 describes the economic and fiscal impacts for the third quarter 2010 grants.

The Job Impact columns in Table 2 describe the direct jobs that are expected to be created as well as the “multiplier” employer impacts of each company’s activities. The projects approved in the third quarter are expected to generate 2,316 direct jobs at full production and add approximately 5,379 more indirect and induced jobs through economic multiplier impacts.

The expected total increase in the State’s gross domestic product (the “GDP”) over the life of the grants, is measured in the GDP column in Table 2.³ GDP is a measure of the size of the economy. The seven projects approved in the 3rd quarter of 2010 are expected to generate approximately \$3.5 billion in GDP over the terms of these grants.

Table 2 displays the maximum State grant liability over the life of each grant. The grants will only reach the maximums if company performance (jobs, salaries, and investment) meet targets in every grant year, and if withholding amounts meet expectations. Three of the grants awarded in the 3rd quarter of 2010 are for projects that will locate in a Tier 2 county, and four are for projects that will locate in a Tier 3 county. For projects located in Tier 2 and 3 counties, a percentage of the award (15% and 25%, respectively) is transferred to the Utility Account of the Industrial Development Fund (the “Utility Account”) to provide grants for infrastructure in distressed counties.

The cumulative State net revenue impact column represents all State revenues generated by a project minus the cost of any State-provided economic incentives (including the JDIG award, potential Article 3J tax credits for Growing Businesses, One NC grants and community college training services), as well as the cost of providing State services to migrants from out-of-State that come to North Carolina because of the project. Under the JDIG Statute and Criteria, only projects that generate positive net revenue impacts are eligible for a grant. The seven projects approved in the 3rd quarter of 2010 are expected to generate over \$78.3 million in net State revenue over the life of the grants.

As reflected in Table 3, Brunswick and LBPS will be eligible for grant payments during the fiscal year ending June 30, 2011 (for calendar year 2010 performance). Payment for the first grant year for Caterpillar (Lee), Caterpillar (Forsyth) and Timco will not occur until fiscal year 2011/12 (for calendar year 2011 performance). Payment for the first grant year for ABB and Cree will not occur until fiscal year 2012/13 (for calendar year 2012 performance). The first grant year is not necessarily the same as the year in which a project is awarded a grant, as a company may need substantial time to undertake construction, hire employees and begin operations at the facility. Grant payments are typically made by the second quarter following the end of a grant year, which is a calendar year, ending on December 31. Once annual reports are received, analyzed, and Department of Revenue certifications of withholdings and the absence of overdue tax debts received, staff presents performance findings to the EIC for approval of disbursements, at which point grant disbursements are made.

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

Table 2

| Table 2 | Job Impact | | | | GDP | Revenue | Maximum State Grant Liability | | |
|--|-------------|-----------------|------------|---------------------|--------------------------------|-------------------------------------|------------------------------------|--|-------------------------------|
| Grantee | Direct Jobs | Multiplier Jobs | Total Jobs | Target Average Wage | Total NC GDP Impact (millions) | Net State Revenue Impact (millions) | Maximum State Liability to Grantee | Maximum State Liability to Utility Account | Total Maximum State Liability |
| Brunswick Corporation | 350 | 487 | 837 | \$31,426 | \$208 | \$1.10 | \$3,068,500 | \$541,500 | \$3,610,000 |
| IBM Lender Business Process Services, Inc. | 600 | 793 | 1393 | \$50,000 | \$731 | \$16.14 | \$7,779,000 | \$2,593,000 | \$10,372,000 |
| Caterpillar, Inc. - Lee | 325 | 1320 | 1645 | \$35,602 | \$670 | \$18.13 | \$3,462,050 | \$610,950 | \$4,073,000 |
| Caterpillar, Inc. - Forsyth | 392 | 1125 | 1517 | \$40,482 | \$626 | \$10.06 | \$4,677,750 | \$1,559,250 | \$6,237,000 |
| Cree, Inc. | 244 | 922 | 1166 | \$42,726 | \$762 | \$22.71 | \$2,236,500 | \$745,500 | \$2,982,000 |
| ABB, Inc. | 130 | 311 | 441 | \$71,120 | \$295 | \$6.92 | \$2,149,500 | \$716,500 | \$2,866,000 |
| Timco Aerosystems, LLC | 275 | 421 | 696 | \$34,728 | \$211 | \$3.23 | \$1,798,600 | \$317,400 | \$2,116,000 |

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

Table 3

| Grantee | Maximum FY10/11 Liability to Grantee | Maximum FY10/11 Liability to Utility Account | Total Maximum FY10/11 Liability |
|---------------------------|--------------------------------------|--|---------------------------------|
| Brunswick Corporation | \$71,400 | \$12,600 | \$84,000 |
| IBM Lender Services, Inc. | \$536,250 | \$178,750 | \$715,000 |

Note: Caterpillar-Lee, Caterpillar-Forsyth, and Timco are not listed in the above table because their first grant year is not until FY 2011/2012. Cree and ABB are not listed in the above table because their first grant year is not until FY 2012/2013. As per the statute, the information provided here reflects only potential liability for the State's current fiscal year. Total potential State liability over the life of each grant is provided in Table 2.

Project Descriptions

Brunswick Corporation ("Brunswick")

Brunswick is a leading global manufacturer of recreation products including marine engines, boats, fitness equipment and bowling and billiards equipment. Brunswick's engine products include outboard, sterndrive, and inboard engines; trolling motors; propellers; engine control systems; and marine parts and accessories. Boat offerings include fiberglass pleasure boats; luxury sport-fishing convertibles and motor yachts; offshore fishing boats; aluminum fishing, deck, and pontoon boats.

Hatteras Yachts ("Hatteras"), established in 1959, is now a division of Brunswick, acquired by Brunswick in 2001. Hatteras, which is located in New Bern, NC, manufactures luxury sport-fishing convertibles and motor yachts from 50' to 100' in length.

In 2006, Hatteras acquired Cabo Yachts ("Cabo") in Adelanto, CA. Cabo manufactures sport-fishing convertibles from 32' to 52' in length. By doing so, Hatteras hopes to capture sport-fishing enthusiasts earlier in their career, when they are buying smaller boats such as Cabo, with the potential that they eventually move up to the Hatteras size range.

While Hatteras believes the strategic reason for acquiring Cabo has been successful, the worldwide market for sport-fishing convertibles has shrunk. Cabo typically manufactured and sold 100+ boats per year and Hatteras manufactured and sold 60+. Because of market contraction, Hatteras believes the demand for the two brands is likely to peak at 70-80 Cabos boats and 40-50 Hatteras boats per year. As a result, instead of operating two plants at some 60-70% capacity, Brunswick decided to combine the two plants into a single location in Craven County.

The cost to relocate the California plant to North Carolina will be over \$4 million. This includes relocating people, molds, and equipment; severance pay in California, a lease buyout of the California property, a new storage building in North Carolina, training for production of the new product in North Carolina, and various other expenses. The company's decision to relocate was driven by its ability to recover the costs associated with a move from the west coast. The company has said that because the NC incentives were sufficient enough to cover those expenses, it allowed the company to select New Bern, in Craven County, as its single location for manufacture of these boats, instead of continuing to operate facilities in both CA and NC. The new operating facility is expected to create 350 new jobs by 2014, with an average annual wage of \$31,425. In addition, the company will be required to retain 279 existing full-time positions in its Hatteras Yachts division in North Carolina. The company will invest \$4.7 million (\$300,000 in real property and \$4.4 million in personal property).

IBM Lender Business Process Services, Inc. ("LBPS")

Incorporated in the State of New York in 1911, IBM is a globally integrated innovation company, serving the needs of enterprises and institutions worldwide. IBM develops and manufactures information technologies, offers IT infrastructure and business process services, professional services and application outsourcing services, computing and storage solutions, middleware and operating systems software, information management software, and commercial financing.

Founded in 2006, LBPS provides turnkey private label mortgage loan origination services, including application enablement, underwriting, vendor order and transaction management, loan processing, document preparation, loan closing coordination and settlement, and post-closing review and investor delivery. By providing origination fulfillment capability, LBPS will allow lender clients to focus on their core strengths and more effectively manage their customer relationships and distribution strategies.

LBPS selected Durham County in Research Triangle Park, to locate to expand its mortgage processing/fulfillment operations. LBPS is expected to create 600 new jobs by 2011, and will be required to retain 95 North Carolina positions representing existing employees. Employees will receive an average annual wage of \$50,000 and the company will invest a total of \$3.7 million in personal property. A recent acquisition of a West Coast mortgage processing business and new customer developments for LBPS led to the need for this expansion. Competing sites the company reviewed included other IBM properties in Metro-Atlanta, Georgia and Metro-Dallas, Texas.

Caterpillar, Inc. ("Caterpillar-Forsyth")

Caterpillar is the largest maker of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines in the world. The company has nearly 300 operations in 40 countries and employs nearly 95,000 people. This project, Caterpillar will construct an approximately 850,000 sq.ft. manufacturing facility for the machining, assembly, test and painting of axle assemblies for Large Mining Trucks. This component is currently produced in multiple locations across the United States. The primary objective is to consolidate these operations into a state-of-the-art manufacturing facility in Forsyth County, to meet the current and projected global demand for these products.

Caterpillar will create 392 jobs for this Winston-Salem facility over the next five years. The minimum annual average wage of the new jobs is \$40,482. Caterpillar will also invest \$426 million (\$164.1 million in real property, \$261.9 million in personal property).

Caterpillar conducted an initial search in 9 states and 72 communities, which resulted in the identification of 3 potential sites - in Montgomery, Alabama; Spartanburg, South Carolina; and Winston-Salem, North Carolina. Each site/location presented a favorable environment for long-term success. The team assessed each market on the basis of availability of a skilled workforce, operating cost factors, and logistics to support the final business case for this location decision. The availability of economic incentives at the State and local level played a key role in the choosing Forsyth County.

Caterpillar, Inc. (“Caterpillar-Lee”)

Caterpillar’s company description is provided in the previous project description.

The Lee County project will expand existing operations to consolidate, manufacture and assemble new lines of Skid Steer Loaders. Due to certain federal environmental regulations that will be phased in over the next several years, the Lee County facility will dramatically increase the number of models produced in order to provide Caterpillar customers with machines that meet the new emissions standards. The project also includes upgrading the paint system to environmental-friendly powder coating, and consolidates two different operations to reduce the impact of transportation costs for inbound material. The project will also result in the location of a parts supplier near the site. The supplier’s process consists of receiving raw steel, cutting it into manageable pieces, and completing additional prep operations like bending and forming. Having this fabrication facility and related supply chain close to the Lee County assembly facility not only decreases transportation costs but also improves quality, as the long travel required in the old supply chain process (from Mexico) impacted fabrication quality.

The Lee County (Sanford) facility employed 355 (295 Caterpillar employees and 60 Caterpillar Logistics Services, Inc. (“CLS”) employees). Including the existing Sanford employees, the company (with CLS) had a total of 825 existing positions in its Building Construction Products Division at the time of its grant application (86 of which are division headquarters positions in Wake; the remainder are at the company’s Sanford and Clayton facilities.. The company will be required to retain this number of positions prior to being able to count any new positions as eligible under the grant. The target number of jobs Caterpillar is expected to create by 2014, is 325. In addition to these jobs, Caterpillar must cause the creation of 128 supplier jobs by this time, in order to retain eligibility for grant payments. The new jobs are anticipated to earn an annual average salary of \$35,602. Caterpillar will also invest \$28.3 million (\$12.9 million in real property, \$15.4 million in personal property).

During the site selection process, Caterpillar considered locating this project at an existing facility for sale/lease in Florence, SC, which was ready to accommodate Caterpillar’s operations. The SC facility also had additional space for expansion. South Carolina offered an incentive package of approximately \$16 million, of which approximately \$6 million would have been cash or cash equivalents.

Cree, Inc. (“Cree”)

Cree was established in 1987 and maintains its corporate and manufacturing headquarters in Research Triangle Park (“RTP”) and Silicon Drive in Durham County, NC, where it currently employs 1,723 people, which it will be required to retain before counting any new positions as eligible under the grant. Globally, the company employs an additional 2,700 people in offices and manufacturing centers in China, Malaysia,

Japan and Germany. Cree is focused on growing its core business of research, development and production of LED lighting products. Cree is publicly traded with a market capitalization of approximately \$6.5 billion (as of July 2010) and annual revenues in excess of \$567 million (Fiscal Year ending June 2009).

Cree is leading the LED lighting revolution and setting the stage for obsolescence of the incandescent light bulb through the use of energy-efficient, environmentally friendly LED lighting. Cree's product families include LED fixtures and bulbs, blue and green LED chips, high-brightness LEDs, lighting-class power LEDs, power-switching devices and radio-frequency/wireless devices.

This project will increase production of Cree's next generation LED chips. While Cree historically manufactured LED chips on 2-, 3-, and currently 4- inch diameter wafers, this project will allow Cree to produce chips on 150mm (approximately 6-inch) diameter wafers, thereby further increasing output and production efficiency. A 6-inch wafer manufacturing operation is considered leading edge for LED chip manufacturing.

Cree expects to create at least 244 jobs by the end of 2013. The average wage of these full-time positions is \$42,726. These 244 positions will fill roles at both Cree locations (RTP and Silicon Drive). In addition to the direct 244 full-time positions, Cree will also need a third party contractor to supply 86 manufacturing workers at the RTP facility. Cree is expected to invest \$135,000,000 in new LED chip and fixture producing equipment and related machinery. The company has an existing JDIG award, and must remain in compliance with that grant in order to be eligible for payments under the new grant.

Cree evaluated three locations for this expansion: the current Cree facilities in Durham, NC; Cree's production facility in Huizhou, China with support functions in Hong Kong; or a location in Penang, Malaysia, where Cree currently utilizes contract manufacturers.

ABB, Inc. ("ABB")

ABB Inc. is a Delaware corporation (incorporated in 1980) and a wholly-owned subsidiary of ABB Holdings, which is a wholly-owned subsidiary of ABB Ltd. The company is a leader in power and automation technologies that enable utility and industrial customers to improve their performance while lowering their environmental impact. ABB has five core competencies that are as follows:

- Low Voltage Products – manufactures switches, circuit breakers and other related products to prevent electrical overload
- Discrete Automation and Motion – this division provides products that increase industrial productivity and energy efficiency
- Process Automation – provides customers with products and solutions for instrumentation, automation and optimization of the industrial process
- Power Products – this division incorporates ABB's manufacturing network to provide key components to transmit and distribute electricity
- Power Systems – offers turnkey systems and services for power transmission and distribution grids, and for power plants

ABB will construct a new factory in the United States to manufacture high-voltage land cables for power transmission for use in both AC and DC applications. The North Carolina site for the plant (Huntersville) will create 100 jobs, and 30 jobs will be added at the main campus in Raleigh. The 130 new jobs will all reside in the Power Systems division of the company and as a result, the company is required to retain 301 Raleigh-based jobs, many of whom share the same reporting structure and divisional obligations. Each location has unique wage requirements. The average annual wage for the 100 Mecklenburg jobs is \$54,548

and is \$93,333 for the 30 jobs in Wake. The combined average wage of the project is \$64,008. Given the wage differential, the company's job retention and job creation requirement in Raleigh may be met by creating 1.5 jobs in Huntersville, for every job required in Raleigh. Cree will also invest \$90 million (\$47 million in real property and \$43 million in personal property).

The company considered locating in Greenville, SC before committing to NC.

Timco Aerosystems, LLC ("Timco")

The grantee is a wholly-owned subsidiary of TIMCO Aviation Services, Inc. (the "applicant"), a privately-held company incorporated in Delaware in 1996. The applicant is one of the largest providers of maintenance, repair and overhaul services in the world. TIMCO Aerosystems is located in Greensboro and has satellite offices in Seattle and Atlanta, and is the only project integrator in the industry certified by the FAA with Organization Designation Authorization authority. The company believes this provides a unique competitive advantage within the industry, as the company can support customer operations with everything from initial design and engineering to complete, in-house systems and structures manufacturing.

The project represents the establishment of an East Coast-based passenger seat manufacturing operation as well as the formation of a dedicated aircraft galley and lavatory manufacturing facility. The project entails the creation of a standalone manufacturing presence that offers synergistic benefits to the engineering and integration operation currently based in Greensboro. The project will bring the operations of another TIMCO Aviation Services wholly-owned subsidiary, California-based Brice Manufacturing Company, to Davidson County. Timco will create 275 jobs over five years. The average annual wage of the new employees is \$34,728. With a relatively low investment (\$2.75 million), Timco's compliance rating for JDIG compliance will not consider investment.

The company considered several options, including the expansion of existing operations in either Georgia or California. The company also considered a new operation in Alabama. The company made its final decision based on State and local incentives, facility specifications and workforce development opportunities.