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Empire State CDC: The 504 Company
Statewide Zone Capital Corporation*

*Lending Partners Across the State
Access to capital for creditworthy businesses*

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First National Bank of Dryden
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First National Bank of Jeffersonville
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First National Bank of Scotia
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Genesee Regional Bank
Glens Falls National Bank
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Gotham Bank of New York
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Hudson Valley Bank

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JP Morgan Chase Bank

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Lakeshore Savings Bank
Lyons National Bank

M&T Bank
Mahopac National Bank
Maple City Savings Bank, FSB
Medina Savings & Loan Association
Mitsubishi UFJ Trust & Banking
Corporation (USA)

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

Oneida Savings Bank
Orange County Trust Company

PathFinder Bank
Patriot Federal Bank
Peoples Neighborhood Bank
Peoples United Bank
Pioneer Savings Bank
Provident Bank
Putnam County National Bank
of Carmel
Putnam County Savings Bank

Rhinebeck Savings Bank
Ridgewood Savings Bank
Riverside Bank
Rondout Savings Bank

Safra National Bank of New York
Saratoga National Bank
and Trust Company
Savannah Bank
Sawyer Savings Bank
Signature Bank
Solvay Bank
Sovereign Bank
State Bank of India
State Bank of Long Island
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 Federal Savings
& Loan Association
Walden Savings Bank
Wallkill Valley Federal Savings
and Loan Association
Watertown Savings Bank

Report on Operations

Challenges and Opportunities...

The challenges presented by the economy provided us with daily opportunities to work with our lending partners to craft responsive, creative, prudent and cost-effective financing solutions for our small business customers. Our core mission to support jobs creation and/or retention by providing access to capital has never been more crucial.

While we had a mixed year in terms of loan demand, it was a terrific year for loan closings and our overall financial performance. Although our NYBDC loan applications and approvals (SBA 7(a) and conventional loans) were well off historical levels, SBA 504 loan approvals ran significantly ahead



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

of prior years. Overall, our closing activity was very good as a result of a strong, and in the case of SBA 504 growing, pipeline. In fact, we established a new record for loan closings, surpassing the prior record established in FY 2008.

This time last year we were preparing for the recovery as we began to see signs of confidence and hope in the small business sector. Unfortunately, the recovery was not able to take hold and many small businesses are still struggling. Weak loan demand reflects a lack of confidence and the poor overall economic outlook. Subject to rare exception, small businesses saw flat or flagging revenues in FY 2011 despite continuing efforts at many levels to jump-start the economy. Issues regarding sovereign debt around the globe, the pressure to reduce the deficit in the U.S., the high rate of unemployment and lack of consumer confidence have all had a significant and continuing adverse impact on “Main Street.” In short, the challenges for small business and our economy continued in FY 2011 and are expected to continue through FY 2012.

During FY 2011, we saw a substantial (38 percent) increase in demand for SBA 504 loans all in support of capital projects

following a similar (39 percent) increase in FY 2010 and reversing the decline we experienced in FY 2009. Collectively, NYBDC and Empire State CDC were again the leading SBA lender in New York State by dollar amount, with loan approvals representing almost 20 percent of the total loan approvals. SBA incentives under the American Recovery and Reinvestment Act of 2009 and the Small Business Jobs Act of 2010 provided substantial incentives during much of FY 2011. These incentives had a very significant impact on our SBA 504 approval volume, accelerated our realization of fee income from the processing of those loans and reduced our expenses for payment of third-party lender fees.

We exceeded our income, closing and portfolio goals, while increasing our managed loan portfolio by 3.7 percent to \$1.089 billion. Other significant aspects of our FY 2011 performance include:

- Revenue increased 13 percent to \$14.4 million;
- Income before taxes increased 49 percent to \$3.2 million;
- Loans approved in FY 2011 are expected to create or retain 10,951 jobs;
- Loans to minority or women-owned businesses represent approximately 35 percent of our loan portfolio;
- Empire State CDC was designated by the SBA as a Community Advantage Lender to make SBA 7(a) loans up to \$250,000;
- Loan closings increased 22 percent to \$172.6 million;
- Established an office in Jamestown, New York to serve small businesses and our partner banks in the region;
- Receipt of a \$7.5 million loan from the Empire State Development Small Business Revolving Loan Fund providing a low-cost source of funds for small business loans; and
- Renewal of our relationship with the New York State Common Retirement Fund with an additional line of credit in the amount of \$100 million to support small business loans.

The decline in our level of SBA 7(a) and conventional loan activity reflects not only the overall decline in demand but also increased focus on SBA 7(a) activity by many of our member banks, due to their strong desire to generate loan assets, as well as a significant increase in the number of non-bank and out-of-market lenders offering SBA 7(a), driven by a lucrative secondary market. While we applaud the efforts of our member banks to increase SBA 7(a) lending and their concerted effort to provide capital to creditworthy small businesses, we are concerned that the growth in activity by non-bank and out-of-market lenders is driven by a desire to capture loan sale

(continued on page 2)

Report on Operations (continued from page 1)

premiums. We fear that loan activity driven by a desire to create “product” for the secondary market will negatively impact SBA 7(a) program costs as less attention will be paid to issues of eligibility, collateral, loan structure and repayment ability, resulting in loan losses and increased guaranty claims. As a result, we have been urging SBA to significantly enhance lender oversight.

Despite the difficult economy, we have not seen significant deterioration in our loan portfolio and have been able to work with borrowers with a focus on taking meaningful steps to sustain viable businesses through loan modifications and payment moratoriums, individually structured to meet the cash flow needs of the business. Net charge-offs for FY 2011 were \$603,000 or .4 percent of our loans receivable. At year end, our allowance for loan losses was \$6.3 million or 4 percent of our loans receivable. By any measure, we are well reserved against reasonably anticipated loan losses.

The SBA 504 Refinance Program was announced in mid-2011 with mixed reviews as the process and requirements were not appropriate to the market needs and expectations. In the first weeks of FY 2012, SBA announced sweeping changes to this program addressing many of the industry concerns. We expect to see many of our member banks take advantage of the SBA 504 Refinance Program during FY 2012, providing not only for refinance of existing debt but the ability to include accrued or anticipated business expenses as part of the project.

In the closing months of FY 2011 we began an indepth process to examine our role bearing in mind that our mission is not to compete with conventional lenders or to offer what is available elsewhere on reasonable rates and terms but to identify and to

fill gaps. Many of the economic uncertainties and changes in the lending environment mentioned above are likely to continue and our role will certainly change. In FY 2012 we will continue that process by seeking input from our member banks and key economic development partners to determine how we best assist small businesses to start, sustain and/or grow operations and thereby contribute to the prosperity of the State of New York.

In closing, we would like to note that NYBDC and its affiliates benefit from active and diverse boards of directors that share both clarity of purpose and commitment to our mission, allowing us to be responsive and creative contributors to the economic development of New York State year after year. We also benefit from a dedicated and focused staff who seek to support our lending partners and creditworthy small businesses with well-structured and thoughtful financing solutions.

Retiring NYBDC directors Gary Berner (First Niagara), George Strayton (Provident Bank), Marjorie Rovereto (Ulster Savings Bank) and Lisa Quiroz (Time Warner) have all left their mark on NYBDC and will be missed. We thank them for the service, insight and direction they each provided. A special note of thanks goes to Gary Berner who served as Chairman of our Central Loan Committee and as a member of our Executive and Audit Committees for his insight, guidance and encouragement during his tenure on our board.

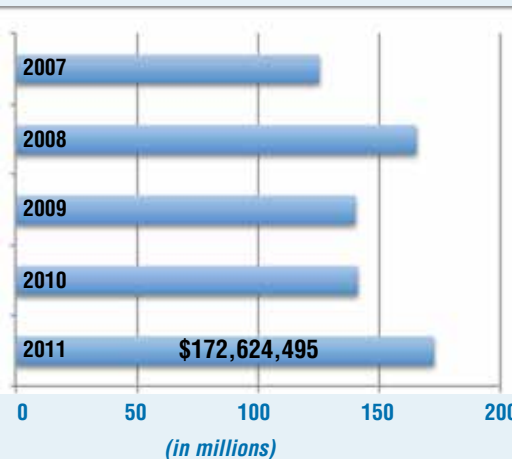


Patrick J. MacKrell
President & CEO

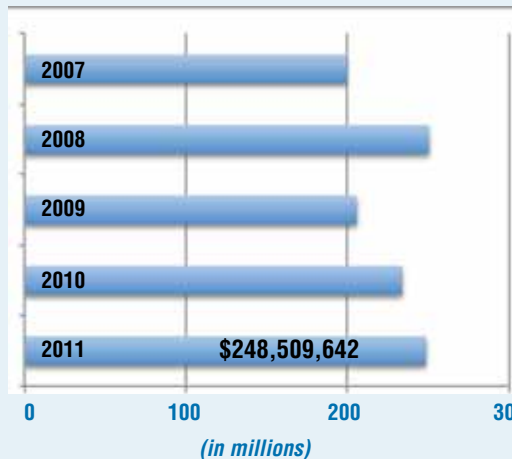


James J. Byrnes
Chairman of the Board

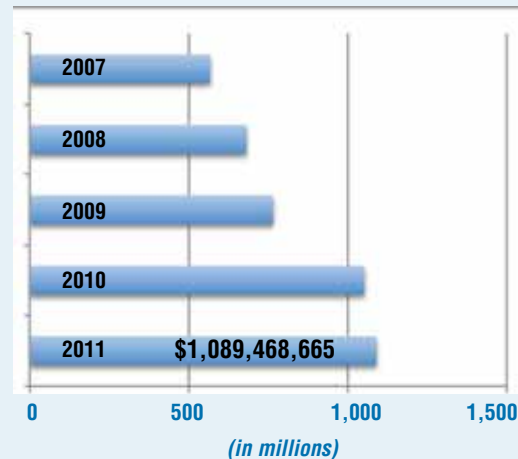
Loan Advances
Total



Loan Approvals
Total



Loan Portfolio Managed
Total





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President & CEO
Chemung Canal
Trust Company
Elmira, New York



G. Gary Berner
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Chairman, President & CEO
Security Mutual
Life Insurance Company
Binghamton, New York



Dale A. Burnett
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CenterState CEO
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The Solar Energy Consortium
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M&T Bank
Syracuse, New York



John Rhea
Chairman
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Housing Authority
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New York Business Development Corporation • NYBDC is a consortium of banks committed to support economic development and the growth of job opportunity in New York State by providing innovative loans to small businesses. NYBDC provides government guaranteed and conventional loans.

Manhattan By Sail Manhattan, New York

NYBDC loan helps ship owner take charge of his business

The day Tom Berton attended a roundtable event on financing sponsored by the SBA and FDIC, he found the answers to his financing problems after he had the courage to stand up and say, “I have two old wooden boats and I’m unfinanceable.”

Congresswoman Nydia Velazquez and SBA Deputy Administrator Marie Johns were in attendance at the event and NYBDC’s President and CEO Pat MacKrell was a panelist. MacKrell responded by telling Berton that there was financing available to him and that the two could talk after the formal presentation. That conversation eventually led to a financing package that allowed Berton to restructure previous debt and take full control of his company.

Berton’s company, Manhattan By Sail, operates the Clipper City, a 158-foot topsail schooner, and the Shearwater, an 82-foot schooner, out of Battery Park and South Street Seaport. He offers daily public tours, specialty tours, music events, cocktail parties, weddings and private charters on the ships. The Clipper City is one of the largest capacity sailboats in the U.S., and is the lead boat in nearly every New York City parade of boats.

In 2009, when Berton needed financing to purchase the Clipper City, he found out no bank was willing to assist him. As a result, he took a loan on “less than favorable terms,” he says, because of an immediate need for cash. “The terms were not favorable for long-term financing and the exit was going to be tough,” Berton said.

Berton turned to a hedge fund for the acquisition of its latest vessel, the Clipper City. In exchange for a capital infusion, the fund took 50 percent ownership, a large share of the profits and charged double digit interest rates on financing.

“Once Mr. Berton learned about NYBDC and pursued an SBA 7(a) term loan, he was able to obtain financing to buy out the hedge fund,” said NYBDC Vice President Tara Caroll. “As a result, he now owns 100 percent of the company and has rights to all of its profits, and the financing carries reasonable terms and a considerably lower rate.”

NYBDC provided \$400,000 in financing, which allowed Berton to free himself from the unfavorable terms and take sole control of his company. “I was also able to open up an operating line of credit, and now I don’t have to get approval for every \$10,000 purchase. I feel very safe now,” Berton said.

“Purchasing equity control is very important for an entrepreneur,” Berton said, “and being my own master helps a lot.”

He credits Caroll and NYBDC with spending a great deal of time learning about the charter sailing business and then creating a way to secure the necessary financing. “Tara was patient and relentless in helping me make this work,” he said.





The Shearwater

Empire State CDC: The 504 Company • The 504 Company is authorized by the SBA to offer the SBA 504 loan program in New York State. The SBA 504 loan program facilitates financing up to 90 percent of project costs for acquisition and/or improvement of owner-occupied commercial real estate, machinery and equipment. The 504 Company is managed by NYBDC.

Hill & Markes Amsterdam, New York

Regional wholesaler and distributor one of first in nation to use expanded SBA program

In 2011, the SBA adopted new public policy goals on energy efficiency that encourage the reduction of energy consumption in existing businesses and make more funding available to businesses who make reductions. The 504 maximum loan amounts were increased from \$2 million to \$5.5 million, which made the program a more attractive option for large projects as well as smaller projects.

Amsterdam, New York based Hill & Markes, Inc. was one of the first companies in the country to use the SBA program designed to support new energy efficient facilities.

With financing from Empire State CDC, an affiliate of the New York Business Development Corporation, Hill & Markes expanded its facility in Amsterdam to accommodate the company's growth. The company constructed a new 127,000-square-foot facility and celebrated the grand opening of the addition in mid-October. The 105-year-old family owned business distributes janitorial, industrial packaging, food service, farm, office and ice cream products to various market segments throughout the country.

Originally formed in 1906 as a distributor of ice cream and ice cream cones, Hill & Markes has evolved into a leader in the wholesale and distribution of paper products throughout New York State. The company and its 165 employees moved from its previous location in the Edson Industrial Park in Amsterdam to a new building, located at 1997 State Highway 5S in Amsterdam, which provides improved truck access and modern space, while also being visible from the New York State Thruway. The move will help the company add approximately 16 employees in the next two years.

"The 504 program is one of the best economic development financing products available to businesses in the country and we are proud to be involved in Hill & Markes' continued success," said Thomas Reynolds, vice president of NYBDC.

In addition to the \$4 million 504 loan provided by Empire State CDC, Hill & Markes also received a \$4.529 million mortgage from Citizens Bank and a \$500,000 loan from the Montgomery County IDA. The project was also supported by a grant from New York State's Economic Development Corporation.

Empire State CDC is authorized by the SBA to provide access to the SBA 504 loan program to companies in New York State. The 504 loan program provides long-term, low-interest financing for real estate projects using a combination of bank and SBA backed funding, while reducing equity needed by the customer to complete the project.

Hill & Markes Chief Operating Officer Neal Packer said, "We are appreciative of all the help that was provided to our growing business and are proud to be staying and growing in Montgomery County."





Kevin Harrigan of Citizens Bank; Jeffery Finckle, Andrea Packer and Neil Packer of Hill & Markes; and Tom Reynolds of NYBCD.

New York Business Development Corporation • NYBDC works with its member banks to provide creative, responsive and cost effective financing solutions when a conventional alternative is not available.

Hermann J. Wiemer Vineyard Dundee, New York

As vineyard and winery expand, funding helps owners maintain control

When the owners of Hermann J. Wiemer Vineyard needed funding for some capital expenditures a few years after they purchased the business, they returned to a trusted source for help: NYBDC.

In 2007, when Frederick Merwarth, his wife Maressa and partner Oskar Bynke purchased the business, NYBDC and Empire State CDC partnered with Chemung Canal Trust Company on SBA 504 and 7(a) financing to help finance the acquisition of the vineyard.

“Since taking over from the vineyard’s founder, Fred and Maressa Merwarth and Oskar Bynke have worked to execute their plan to increase sales and production,” said NYBDC Senior Vice President Steven Willard. “Their success in doing so led to a need for further working capital. NYBDC again partnered with Chemung Canal Trust Company to provide a permanent working capital solution via a second SBA 7(a) guaranteed loan.”

NYBDC provided a \$350,000 SBA 7(a) loan to fund the purchase of additional equipment for the business and for debt refinance and working capital. In addition, Chemung Canal Trust Company provided a new \$150,000 line of credit for short-term working capital needs.

Bynke said the NYBDC funding has been vital to getting the vineyard going and in helping the owners maintain autonomy. “We didn’t need outside investors and were able to maintain control over the vineyard, which is very, very good for us.”

With Fred Merwarth as the winemaker and vineyard manager and Bynke as the sales manager, Hermann J. Wiemer Vineyard focuses on the production of several world class quality wine types, including Riesling (its most popular type), Chardonnay, Pinot Noir, Cabernet, champagnes, Gewurztraminer and Rosé. All wines produced by the vineyard are pressed, processed, bottled and labeled on site. Approximately 50 percent is sold wholesale to retailers and restaurants; the remaining 50 percent is sold through the tasting room, retail shop and mail order sales. Wholesale customers come from throughout New York, Connecticut, New Jersey and Massachusetts and from as far away as Canada, China and Sweden.

In 2006, Fred Merwarth was accepted into the Institute of the Masters of Wine, an elite London-based program that provides the highest level of education in the wine industry. Merwarth was the 20th American accepted into the program, from which fewer than 300 people have graduated since its formation in 1955.

Hermann J. Wiemer Vineyard also has a grafted grapevine nursery operation that sells grapevines to more than 500 vineyards, wineries, nurseries and private home growers.





Pennie Smith of NYBDC; William Hodel of Chemung Canal Trust Company; Maressa Merwarth, Fred Merwarth and Oskar Bynke of Hermann J. Wiemer Vineyard; and Steven Willard of NYBDC.

Empire State CDC: The 504 Company • The SBA 504 Loan Program supports a very favorable structure for both the borrower and the first mortgage holder, promoting the growth of opportunity and prosperity for small businesses.

Michael James Industries
Ronkonkoma, New York

HVAC company prepares for the future by expanding space and controlling cash flow

Founded only 12 years ago, Michael James Industries has seen significant growth in its commercial HVAC service and installation business and the industry itself. The growth was large enough that last year owners Michael Herman and James Carlson decided expansion of their facility was important to managing that growth and preparing for the future.

The owners identified an available 10,000-square-foot building that would nearly double the size of the space they were leasing and sought to purchase that facility, which previously housed a solar panel retailer. They looked to their long-time banking partner, JP Morgan Chase Bank, for assistance. Salvatore Incardona from JP Morgan Chase Bank then brought NYBDC in on the project to help assist with the real estate purchase. JP Morgan Chase provided a \$540,000 first mortgage and Empire State CDC: The 504 Company provided a \$432,000 second mortgage.

“The 504 loan was beneficial to the company because it offered them a 90 percent loan to value, which allowed them to keep more capital in the business to use for continued growth and job creation,” said NYBDC’s Vice President Kevin Gallagher who shepherded the project.

“The opportunity that NYBDC presented was the perfect chance to prepare for the future,” said Carlson. “Now that we are able to control our costs through a fixed mortgage, we are confident revenues will increase.”

Currently, Michael James Industries uses about 80 percent of its new building and leases out the rest to an unrelated business. With the expanded space the company has been able to create new plumbing and controls divisions and build a training room for its technicians. Carlson and Herman have hired five additional employees since the expansion.

“The 504 program is such a great opportunity; it really helped us manage our cash flow,” said Carlson. “Since we only had to put 10 percent down, we had the cash to build out the space.”





Salvatore Incardona of JP Morgan Chase, James Carlson of Michael James Industries, Kevin Gallagher of NYBDC, and Michael Herman of Michael James Industries.

New York Business Development Corporation • NYBDC works closely with economic development partners across New York State to support innovative businesses at all stages of development.

Gotham Greens Farms Brooklyn, New York

Rooftop farm in Brooklyn grows fresh local produce while saving energy

High atop a commercial building in the industrial area of the Greenpoint section of Brooklyn an unusual business is growing, and what it's growing is very unique for a metropolitan area. On the rooftop at 810 Humboldt Street, a 15,000-square-foot greenhouse that is New York City's first commercial hydroponic rooftop farm is producing leafy greens and herbs.

Gotham Greens Farms' business model combines technically sophisticated, commercially proven controlled environmental agriculture techniques with unique energy saving innovations. It addresses ecological and public health concerns surrounding conventional agriculture, including high consumption of resources, long distance food transport and food safety.

In 2008, when the business was just a start-up and needed funding to purchase equipment necessary to operate the greenhouse, the Greater Jamaica Development Corporation introduced owners Viraj Puri and Eric Haley to NYBDC. "NYBDC was supportive from day one," said Puri. "They thought it was an exciting idea, and they helped us through the entire project."

With \$399,000 in funding already secured from the New York State Energy Research and Development Authority, Gotham Greens needed additional funds.

"This project met the SBA's public policy goal of lending to a small business that utilizes renewable energy for production of goods and services," said NYBDC Vice President Kevin O'Leary. "It was a great opportunity for NYBDC and a perfect fit for the SBA 7(a) loan guaranty program."

NYBDC provided Gotham Greens Farms with an \$800,000 SBA 7(a) loan, which enabled the owners to construct the greenhouse and purchase framing and covering accessories for the greenhouse; solar energy panels; doors and entryways; a ventilation system; and cooling, electrical and plumbing equipment.

The rooftop integration of the greenhouse yields direct energy savings by eliminating heating losses through the building's roof and the greenhouse's floor. Special design features reduce heating demand and the facility's electrical needs are met in part by a 55Kw solar PV system.

With the first crops cultivated in May 2011, the greenhouse will produce more than 100 tons of premium quality, pesticide free leafy greens and herbs for New York City retailers, supermarkets and restaurants. Unlike most farms, Gotham Greens has a year round production cycle, with no off seasonality issues. Some of its notable clients include Whole Foods Market, Fresh Direct and the D'Agostino supermarket chain, in addition to some small restaurants and retailers in New York.

During the construction phase, which took place from November 2010 to May 2011, 60 construction jobs were created. Now that the farm is fully operational, it has more than 20 full- and part-time employees.



Greater Jamaica
Development
Corporation





Eric Haley, Viraj Puri and Jennifer Nelkin of Gotham Greens Farms and Kevin O'Leary of NYBDC.

Empire State CDC: The 504 Company • Jobs creation is the “heart” of the SBA 504 Loan Program administered by Empire State CDC. The loan structure allows the business to retain the working capital necessary to expand the business and create jobs.

Mas (la grillade) Greenwich Village, New York

Successful restaurateurs use funding to open new location in Greenwich Village

After having such a positive experience with NYBDC when they opened their first restaurant – Mas (farmhouse) – supported by an SBA 7(a) loan about seven years ago, Eric Blinderman and Galen Zamarra didn’t have to look far when seeking funding to open a new restaurant.

“Because of the lending terms, customer service and tremendously positive experience we had funding our first restaurant, we naturally turned to NYBDC when it came time to fund Mas (la grillade),” Blinderman said.

Following extensive renovations to a building that formerly housed a restaurant near Mas (farmhouse) in Greenwich Village, the pair opened Mas (la grillade) on October 1, 2011. The full-service restaurant offers daily menu changes to reflect what’s in season and what’s in its prime. Mas (la grillade) – meaning the grill – differentiates itself from other restaurants by offering organic foods at a price that is lower than its competitors in a cozy and intimate environment. Co-owner and Chef Galen Zamarra enjoys near celebrity status and is a known leader in the sustainable and organic food movement.

Blinderman and Zamarra obtained a \$1,533,250 first mortgage and a \$420,000 SBA 7(a) loan from Citibank and a \$1,226,600 second mortgage from Empire State CDC.

“The Empire State CDC SBA 504 loan enabled the owners to establish their new restaurant in a building they own, alleviating the worry about having to be at the mercy of a landlord,” said NYBDC Senior Vice President Chet Sadowski. “The limited down payment allowed the owners to preserve the working capital necessary to get off to a good start.”

“If not for the NYBDC, Citibank and the SBA, we would never have been able to afford purchasing the building,” said Blinderman. “Even more beneficial, the total loan payments on this project are lower than the rent plus loan payments we make to support my first restaurant. This means that the fixed costs of owning the building that houses Mas (la grillade) are lower than the fixed costs to operate Mas (farmhouse).”

“I cannot say how grateful I am to Pat MacKrell, Chet Sadowski, Bryan Doxford and Tara Carroll from NYBDC for all their hard work on this project,” added Blinderman. “We are equally grateful to Michael Vinciguerra and Donald DiMartini from Citibank for all their tremendous work on this project. Collectively, NYBDC and Citibank functioned as an integrated team. They were able to problem solve when issues arose and worked tirelessly to get the loan closed and the project off the ground.”

As a result of opening Mas (la grillade), the partners hired an additional 49 people and now employ a total of 85 between the two restaurants. The restaurant currently offers dinner service only, but Blinderman and Zamarra expect to be open for lunch beginning in January 2012. When fully operational, the opening of Mas (la grillade) will create 65 new jobs.





Chet Sadowski of NYBDC, Eric Blinderman and Galen Zamarra of Mas (la grillade) and Don DiMartini of Citibank.



James J. Byrnes
Chairman
Tompkins Financial
Corporation
Ithaca, New York



Herbert G. Chorbajian
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Financial Corporation
Albany, New York



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Development Corporation
Albany, New York



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Capital Region President
NBT Bank
Albany, New York



Patrick J. MacKrell
President & CEO
New York Business
Development Corporation
Albany, New York

Lenders of the Year

These bankers have worked extensively and creatively with NYBDC to promote access to capital for New York's small businesses.

NYBDC Lender of the Year Schuyler Tilly



Empire State CDC: The 504 Company Lender of the Year John Dimino



Community Partner of the Year

New York City Economic Development Corporation



New York City Economic Development Corporation

In the Community Partner Program, NYBDC works with economic development entities and shares revenue on our joint projects. We now have 83 Community Partners, many of which are playing a significant role in the development of projects financed by NYBDC or Empire State CDC: The 504 Company and our lending partners.

The "Community Partner of the Year" award was presented to New York City Economic Development Corporation in recognition of its commitment to our partnership and its efforts to promote access to capital to New York's small businesses.

The 504 Company

Empire State Certified Development Corporation Board of Directors



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Schenectady, New York



Jeffrey Bray
Retired Economic
Development Executive
Schenectady, New York



Michelle L. Capone
Senior Project
Development Specialist
Development Authority
of the North Country
Watertown, New York



John A. Chiaramonte
Partner
Teal, Becker
& Chiaramonte, CPAs
Albany, New York



Herbert G. Chorbajian
Retired Director
Charter One
Financial Corporation
Albany, New York



Peter K. Cosgrove
Senior Vice President
Upstate New York
Regional President
First Niagara Bank
Albany, New York



Alfred D. Culliton
Chief Financial Officer
Erie County Industrial
Development Agency
Buffalo, New York



John A. De Franza
Senior Vice President
Bank of America
Melville, New York



Bruce E. Ferguson
Administrative Director
Suffolk County Industrial
Development Authority
Hauppauge, New York



Michael J. Gill
Partner
GillWright Group
Riverdale, New York



James L. King
State Director
New York State Small Business
Development Center
Albany, New York



Jeffrey M. Levy
Capital Region President
NBT Bank
Albany, New York



Edie M. Longo
Deputy Director & CFO
Town of Hempstead
Industrial Development Agency
Hempstead, New York



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



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



James E. Murphy
Senior Vice President
JP Morgan Chase Bank
Albany, New York



Noel Murphy
President
Celtic Tours
Albany, New York



Jeffery B. Rivenburg
Regional President
TD Bank
Latham, New York



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

Chairman's Leadership Award

Robert M. Simpson, CenterState Corporation for Economic Opportunity

The Chairman's Leadership Award was presented to Robert M. Simpson, president and CEO of the CenterState Corporation for Economic Opportunity, a private, not-for-profit regional business leadership and economic development corporation headquartered in Syracuse.

Simpson has been a tireless advocate of coalition building to promote effective economic development, most notably by creation of the Central Upstate Regional Alliance with members representing business, academia and economic development organizations from 12 counties. He is well recognized as an innovative, thorough and effective champion for Central New York and the driving force behind initiatives that will enhance opportunity, innovation and prosperity for many years to come.



Robert Simpson and NYBDC Chairman James Byrnes



Douglas A. Asofsky
Vice President
Citigroup
Uniondale, New York



Douglas W. Barton
Director
Tioga County Department
of Economic Development
and Planning
Owego, New York



Mary C. Bintz
Senior Vice President
Bank of America
Merrill Lynch
Albany, New York



Jeffrey Bray
Retired Economic
Development Executive
Schenectady, New York



Daniel Burke
President
Glens Falls Region
NBT Bank
Glens Falls, New York



Robert J. Camoin
Principal
Camoin Associates
Saratoga Springs, New York



Megan Daly
Deputy Commissioner
City of Albany Department
of Development & Planning
Capitalize Albany Corporation
Albany, New York



Kathy L. Davis
Senior Vice President
Alliance Bank
Cortland, New York



Adoré Kurtz
President
The Development
Corporation
Plattsburgh, New York



Patrick J. MacKrell
President & CEO
New York Business
Development Corporation
Albany, New York



William Mannix
Executive Director
Town of Islip
Economic Development
Islip, New York



Richard W. Merzbacher
Retired Director
State Bank of Long Island
Jericho, New York



Charles E. Robinson
Vice President
M&T Bank
Albany, New York



Robert W. Schwartz
President
Schwartz, Heslin Group
Latham, New York



Stephan von Schenk
Executive Vice President
The Adirondack
Trust Company
Saratoga Springs, New York



Donald J. Western
Vice President
Community Engagement and
Economic Development
Syracuse University
Syracuse, New York



“NYBDC has remained a key partner in getting financial access to New York businesses while acting to assist firms dealing with challenges ranging from flood disasters to support for businesses interested in new markets and exports that help save or create jobs here in New York. NYBDC is one of the big reasons New York State has fared better than most regions of the country in limiting the impact of the economic downturn by providing that support. The NYSSBDC is committed to working with NYBDC to get the resources to business that they need to lead the ongoing economic recovery for every corner of New York State. NYBDC, their member banks and SBA have kept critical capital within the reach of new and existing businesses, and we applaud their efforts.”

*James L. King
State Director
New York State Small Business Development Center*



“In 2011 the U.S. Small Business Administration exceeded pre-recession levels, thanks to the Jobs Act loan incentives for 7(a) and 504 loans. The SBA was able to support almost 3,700 loans worth \$1.1 billion in New York alone. By partnering with NYBDC and Empire State CDC we were able to provide New York’s small businesses access to capital normally unavailable to them so they can expand, modernize and create jobs.”

*Jorge Silva-Puras
U.S. Small Business Administration
Region II Administrator
New York, New Jersey, Puerto Rico
& U.S. Virgin Islands*



“During this economic recession and recovery, the New York Business Development Corporation has answered the call with innovative programs to make loans available to small businesses across the State of New York – expertly fulfilling its mission when it is most needed.”

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

NYBDC Stockholders

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

NYBDC Corporate Officers

James J. Byrnes <i>Chairman of the Board</i>	Steven M. Willard <i>Senior Vice President</i>	John T. King <i>Vice President</i>	Timothy C. Larson <i>Assistant Vice President</i>
Bruce W. Boyea <i>Vice Chairman</i>	Michael G. Zihal <i>Senior Vice President</i>	Kevin O'Leary <i>Vice President</i>	Gregory S. Lindquist <i>Assistant Vice President</i>
Patrick J. MacKrell <i>President & Chief Executive Officer</i>	Leesa Naimo-Fredette <i>Vice President & General Counsel</i>	David T. Reaske <i>Vice President</i>	Sabrina N. Morton <i>Assistant Vice President</i>
Nancy A. Reinhart <i>Executive Vice President & Chief Administrative Officer</i>	Owen F. Burns, IV <i>Vice President & Controller</i>	Thomas Reynolds <i>Vice President</i>	Amy Oates <i>Assistant Vice President</i>
Andrew M. Linehan <i>Executive Vice President & Senior Loan Officer</i>	Richard Amsterdam <i>Vice President</i>	Pennie L. Smith <i>Vice President</i>	Ross Pancoe <i>Assistant Vice President</i>
James J. Conroy <i>Senior Vice President</i>	Tara Caroll <i>Vice President</i>	Daniel Vaccaro <i>Vice President</i>	Gregory J. Powell <i>Assistant Vice President</i>
James Goldrick <i>Senior Vice President</i>	Cedric Carter <i>Vice President</i>	Linda Zou <i>Vice President</i>	Rachel A. Wade <i>Assistant Vice President</i>
Thomas K. McHale <i>Senior Vice President</i>	Carmine Fabio <i>Vice President</i>	Kathleen M. Russom <i>Secretary</i>	Thomas Green <i>Assistant Treasurer</i>
Chester A. Sadowski <i>Senior Vice President</i>	Kevin Gallagher <i>Vice President</i>	Cheryl Antalek <i>Assistant Vice President</i>	Joanne S. Karmazyn <i>Assistant Secretary</i>
Michael A. Taylor <i>Senior Vice President</i>	Joan Gleason <i>Vice President</i>	Bryan C. Doxford <i>Assistant Vice President</i>	Diane J. McDonald <i>Assistant Secretary</i>
	Stanley Grochocki <i>Vice President</i>	John J. Hogan, III <i>Assistant Vice President</i>	Deborah A. Mercora <i>Assistant Secretary</i>

COMBINED STATEMENTS OF FINANCIAL CONDITION
September 30, 2011 and 2010

	2011	2010
Assets		
Loans receivable, net	\$165,178,929	\$160,968,392
Cash	211,146	183,476
Restricted cash	5,562,311	1,067,164
Accrued interest receivable	892,460	878,318
Investments	1,522,232	1,376,598
Deferred tax benefit	3,005,352	3,138,570
Other assets	2,241,153	1,217,101
Total Assets	\$178,613,583	\$168,829,619
Liabilities and Equity		
Liabilities		
Notes payable:		
Members	\$ 35,004,737	\$ 19,736,977
New York State Common Retirement Fund	80,489,073	88,483,318
Bank lines of credit	3,250,000	6,550,000
Bank term loans	21,975,107	24,701,918
Other obligations	10,018,775	5,522,002
Total notes payable	150,737,692	144,994,215
Accrued interest payable	482,265	477,283
Accrued expenses and other liabilities	4,573,546	2,170,903
Total liabilities	155,793,503	147,642,401
Equity		
Capital stock, no par value, authorized 500,000 shares; issued and outstanding of 216,875 shares, (217,700 shares in 2010) \$5 stated value per share	1,084,375	1,088,500
Paid-in capital	3,525,074	3,590,400
Retained earnings	14,713,833	13,617,996
Accumulated other comprehensive items	11,375	29,654
Total stockholders' equity	19,334,657	18,326,550
Net assets of Empire State Certified Development Corporation	3,485,423	2,860,668
Total equity	22,820,080	21,187,218
Total Liabilities and Equity	\$178,613,583	\$168,829,619

See Notes to Combined Financial Statements

COMBINED STATEMENTS OF OPERATIONS
Years Ended September 30, 2011 and 2010

	2011	2010
Interest income	\$10,923,185	\$10,479,399
Interest expense	6,023,584	6,055,489
Net interest income	4,899,601	4,423,910
Provision for loan losses	-	760,000
Net interest income after provision for loan losses	4,899,601	3,663,910
Fees and other income	9,594,511	8,390,225
Income before operating expenses	14,494,112	12,054,135
Operating expenses:		
Salaries and employee benefits	7,233,229	6,391,948
Other expenses	4,029,728	3,497,420
Total operating expenses	11,262,957	9,889,368
Income before provision for income taxes	3,231,155	2,164,767
Provision for income taxes	1,293,688	840,781
Net income	\$1,937,467	\$1,323,986

See Notes to Combined Financial Statements

COMBINED STATEMENTS OF CHANGES IN EQUITY
Years Ended September 30, 2011 and 2010

	Capital Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Items	Total Stockholders' Equity	ESDC Net Assets	Total Equity
Balance at October 1, 2009	\$1,088,500	\$3,590,400	\$13,018,978	\$(10,827)	\$17,687,051	\$2,135,700	\$19,822,751
Comprehensive income:							
Net income:							
New York Business							
Development Corporation	—	—	599,018	—	599,018	—	599,018
Empire State Certified							
Development Corporation	—	—	—	—	—	724,968	724,968
Total net income					599,018	724,968	1,323,986
Other comprehensive income, net of tax:							
Change in unrealized gains on investments (net of related income tax benefit)	—	—	—	40,481	40,481	—	40,481
Total comprehensive income					639,499	724,968	1,364,467
Balance at September 30, 2010	1,088,500	3,590,400	13,617,996	29,654	18,326,550	2,860,668	21,187,218
Comprehensive income:							
Net income:							
New York Business							
Development Corporation	—	—	1,312,712	—	1,312,712	—	1,312,712
Empire State Certified							
Development Corporation	—	—	—	—	—	624,755	624,755
Total net income					1,312,712	624,755	1,937,467
Other comprehensive income, net of tax:							
Change in unrealized gains on investments (net of related income tax benefit)	—	—	—	(18,279)	(18,279)	—	(18,279)
Total comprehensive income					1,294,433	624,755	1,919,188
Dividend declared	—	—	(216,875)	—	(216,875)	—	(216,875)
Redemption of capital stock (825 shares)	(4,125)	(65,326)	—	—	(69,451)	—	(69,451)
Balance at September 30, 2011	\$1,084,375	\$3,525,074	\$14,713,833	\$11,375	\$19,334,657	\$3,485,423	\$22,820,080

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 (ESDC), 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's Empire Zones. 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.

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.

Restricted Cash: Restricted cash, which principally includes money market cash equivalents, is 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 principally 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 accumulated other comprehensive items, net of tax. The investments in equity securities of privately held companies, all of which the Company holds less than 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 market 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, real estate, prepaids, and certain other assets.

COMBINED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Net income	\$1,937,467	\$1,323,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	140,317	185,630
Provision for loan losses	-	760,000
Deferred tax benefit	133,218	(237,255)
Changes in:		
Other assets	(947,997)	(165,362)
Other liabilities	2,190,750	(908,853)
Net cash provided by operating activities	3,453,755	958,146
Cash Flows From Investing Activities		
Loans disbursed, net of participations	(31,203,145)	(34,249,868)
Loan payments received	26,992,608	24,715,994
Change in restricted cash	(4,495,147)	(46,488)
Changes in other assets	(394,427)	(116,640)
Net cash used in investing activities	(9,100,111)	(9,697,002)
Cash Flows From Financing Activities		
Net borrowings on bank and other obligations	5,743,477	8,421,729
Redemption of capital stock	(69,451)	-
Net cash provided by financing activities	5,674,026	8,421,729
Net increase (decrease) in cash	27,670	(317,127)
Cash, beginning of year	183,476	500,603
Cash, end of year	\$ 211,146	\$ 183,476
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$6,018,603	\$6,057,573
Income taxes	\$867,421	\$1,339,200

See Notes to Combined Financial Statements

Fees and Other Income: Fees and other income are principally derived from net servicing and processing fees earned by ESCDC (approximating \$8,241,000 and \$7,228,000 in the fiscal years ended September 30, 2011 and 2010, respectively), fees paid by Statewide (approximating \$265,000 and \$267,000 in the fiscal years ended September 30, 2011 and 2010, respectively), and certain closing fees (approximating \$265,000 and \$252,000 in the fiscal years ended September 30, 2011 and 2010, respectively). Fees are recognized as revenue at the time the related services are performed by the Company.

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 shareholders' 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 equity transactions, net of applicable income taxes, approximating a loss of \$18,300 and a gain of \$40,500 at September 30, 2011 and 2010, respectively.

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 2010 financial statements have been reclassified to conform with the current year presentation.

Subsequent Events: Subsequent events have been evaluated through October 24, 2011, 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	
	2011	2010
Loans receivable	\$263,301,305	\$260,045,346
Less participations sold	(91,827,358)	(92,178,890)
Less allowance for loan losses	(6,295,018)	(6,898,064)
Loans receivable, net	\$165,178,929	\$160,968,392

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	
	2011	2010
Balance, beginning of year	\$6,898,064	\$6,601,543
Provision for loan losses	-	760,000
Recoveries credited to the allowance	33,885	63,930
Losses charged to the allowance	(636,931)	(527,409)
Balance, end of year	\$6,295,018	\$6,898,064

Loans on which the accrual of interest has been discontinued approximated \$8,770,000 (or \$4,324,000 net of SBA guarantees) and \$8,933,000 (or \$4,495,000 net of SBA guarantees) at September 30, 2011 and 2010, respectively.

ESCDC loans serviced for the SBA are not included in the accompanying statements of financial position. The unpaid principal balance on these loans approximated \$778.7 million and \$727.8 million at September 30, 2011 and 2010, respectively.

NOTE 3 — INVESTMENTS

Investments include both non-marketable equity investments and marketable securities approximating \$1,522,000 and \$1,376,000 at September 30, 2011 and 2010, respectively. Non-marketable equity investments include the Company's investment in Statewide (approximating \$320,000 and \$400,000 at September 30, 2011 and 2010, 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 \$1,013,000 in marketable debt and equity securities valued at quoted market prices. At both September 30, 2011 and 2010, the fair value of the Company's marketable securities approximated the corresponding liability under these plans. Accordingly, the Company's risk of loss on its marketable securities is de minimus.

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	
	2011	2010
Marketable securities classified as Level 1	\$1,013,368	\$ 937,369
Non-marketable equity securities, at cost	508,864	439,229
	\$1,522,232	\$1,376,598

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 \$55.1 million at September 30, 2011.

Calls on members are made for maturities of one year with the September 30, 2011 outstanding loan balances maturing August 1, 2012. 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). All member loans are unsecured.

New York State Common Retirement Fund Borrowings

NYBDC has entered into three loan agreements 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, 2011 and 2010, the outstanding balances on these loans were \$80,489,073 and \$88,483,318, respectively. The principal payments on the loans generally parallels the underlying loan 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 Line of Credit Borrowings

NYBDC has available lines of credit with various banks (all of which are members and stockholders) totaling \$46 million at September 30, 2011. The amounts outstanding on these lines at September 30, 2011 and 2010 were \$8,250,000 and \$6,550,000, respectively. The line of credit agreements, all of which are unsecured, are renewed annually and generally provide for interest at a LIBOR based index rate.

Bank Term Borrowings

NYBDC has entered into agreements with two financial institutions, both 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 4.3% at September 30, 2011. The term agreements provide for total available credit of \$34.4 million, of which amounts outstanding were \$21,975,107 and \$24,701,918 at September 30, 2011 and 2010, 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 \$4 million in the year ended September 30, 2011. Future annual principal reduction payments, which will generally parallel the underlying loans between NYBDC and its borrowers, are scheduled to approximate \$2.6 million in the year ended September 30, 2012.

Other Obligations

Other obligations 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	
	2011	2010
Current taxes		
Federal	\$930,460	\$972,464
State and city	217,824	105,572
Deferred tax (benefit)	145,404	(237,255)
Net provision	\$1,293,688	\$840,781

As of September 30, 2011 and 2010, deferred tax assets, which are recognized for deductible temporary differences, principally related to the allowance for loan losses and deferred compensation and approximated \$3,005,000 and \$3,138,000, 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 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 federal or state income tax returns is currently under examination by the Internal Revenue Service (IRS) or state authorities. However, fiscal years 2008 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 \$498,000 and \$381,000 for the years ended September 30, 2011 and 2010, 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 \$328,000 and \$278,000 at September 30, 2011 and 2010, respectively. The expense for the SERP, a component of operating expenses on the Company's statements of operations, was approximately \$50,000 for each of the years ended September 30, 2011 and 2010, respectively.

The total expense for all Company employee benefit plans was approximately \$548,000 and \$431,000 for the years ended September 30, 2011 and 2010, 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)			
	2011		2010	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Financial assets:				
Loans receivable, net	\$165,179	\$163,663	\$160,968	\$155,925
Cash	211	211	183	183
Restricted cash	5,562	5,562	1,067	1,067
Accrued interest receivable	892	892	878	878
Financial liabilities:				
Notes payable	150,738	148,347	144,994	140,305
Accrued interest payable	482	482	477	477

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 reprice 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 — FAIR VALUE OF FINANCIAL INSTRUMENTS

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, 2011:

	Number of Loans	Amount
Loans authorized, but not fully disbursed to borrowers	76	\$52,752,000
Less estimated bank participations on loan commitments	—	(27,066,000)
Net outstanding loan commitments	76	\$25,686,000

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, 2011, approximate future rent commitments due under leases with terms in excess of one year are as follows:

Years Ending September 30	Amount
2012	\$ 462,000
2013	463,000
2014	466,000
2015	463,000
2016	453,000
Thereafter	1,395,000
	\$3,702,000

Total lease costs were approximately \$473,000 and \$448,000 for the years ended September 30, 2011 and 2010, 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.



INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
New York Business Development Corporation

We have audited the accompanying combined statements of financial condition of New York Business Development Corporation and affiliate as of September 30, 2011 and 2010, and the related combined statements of operations, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial

statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 and affiliate as of September 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Albany, New York
October 24, 2011

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
 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 Development 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.
 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.



"The New York Business Development Corporation (NYBDC) is an increasingly important partner in economic development. It has become a priority lender for small businesses

throughout the state helping to make capital available to New York's job creators. But NYBDC is more than a commercial lender; it is 'the bank with a heart.' When it counts most, NYBDC is there."

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



"Due to the Small Business Jobs Act and a record year in lending, more than 61,000 small businesses had access to capital. In Buffalo, with the support of NYBDC, 58 504 loans for \$37.4 million produced even more growth

and more jobs for small businesses. This growth trend is a great indicator that the President's mission to provide an economic environment in which small businesses can start, grow, and thrive is working. We're gearing up for another great year in SBA lending!"

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



"Central and Upstate New York entrepreneurs rely on access to capital to launch a startup company, purchase inventory or expand business operations, and SBA loan programs are a

critical source of their financing. With continued partnership with lenders such as NYBDC, local SBA loan activity has increased significantly over the past two years."

*Bernard J. Paprocki
 U.S. Small Business Administration
 Syracuse District Director*



Serving New York State from:

Albany

50 Beaver Street
Albany, N.Y. 12207
(518) 463-2268

Buffalo

300 International Drive
Williamsville, N.Y. 14221
(716) 626-3423

Jamestown

200 Harrison Street
Jamestown, NY 14701
(716) 720-5362

Long Island

534 Broadhollow Road
Melville, N.Y. 11747
(516) 845-2700

New York City

5 Hanover Square
New York, N.Y. 10004
(212) 785-5642

Rochester

70 Linden Oaks
Rochester, N.Y. 14625
(585) 662-4150

Syracuse

235 Harrison Street
Syracuse, N.Y. 13202
(315) 453-8195

Watertown

215 Washington Street
Watertown, N.Y. 13601
(315) 755-2700