



*New York Business Development Corporation  
Empire State CDC: The 504 Company  
Statewide Zone Capital Corporation*

*Lending Partners Across the State*

# Members

Adirondack Bank  
Adirondack Trust Company  
Alliance Bank  
Alpine Capital Bank  
Amalgamated Bank of New York  
American Community Bank  
Apple Bank for Savings  
Astoria Federal Savings & Loan  
Axa Equitable Life Assurance Society

Ballston Spa National Bank  
Banco Popular North America  
Bank Hapoalim  
Bank of Akron  
Bank of America  
Bank of Bennington  
Bank of Castile  
Bank of Cattaraugus  
Bank of China  
Bank of Greene County  
Bank of Holland  
Bank of Millbrook  
Bank of Richmondville  
Bank of Smithtown  
Bank of Tokyo - Mitsubishi UFJ Trust Company  
Bank of Utica  
Beacon Federal Savings Bank  
Berkshire Bank  
Bridgehampton National Bank

Canandaigua National Bank  
Capital Bank & Trust Company  
Carver Federal Savings Bank  
Cathay Bank  
Catskill Hudson Bank  
Cattaraugus County Bank  
Cayuga Lake National Bank  
Champlain National Bank  
Chemung Canal Trust Company  
Citibank  
Citizens Bank  
City & Suburban Federal Savings Bank  
Commerce Bank  
Community Bank  
Community Bank of Orange  
Country Bank

Dairylea Cooperative, Inc.  
Delaware National Bank of Delhi  
Deutsche Bank  
Dime Savings Bank of Williamsburgh

Elmira Savings Bank  
Empire State Bank  
Evans National Bank of Angola

First National Bank of Dryden  
First National Bank of Groton  
First National Bank of Jeffersonville  
First National Bank of Long Island  
First National Bank of Scotia  
First Niagara Bank  
First State Bank  
Five Star Bank  
Flushing Savings Bank  
Fulton Savings Bank

Genesee Regional Bank  
Glens Falls National Bank  
Gotham Bank of New York  
Gouverneur Savings & Loan  
Greater Buffalo Savings Bank

HSBC Bank USA  
Habib American Bank  
Hamptons State Bank  
Hudson Valley Bank

Israel Discount Bank of New York

JPMorgan Chase Bank

KeyBank

Legacy Banks  
Lyons National Bank

M&T Bank  
Mahopac National Bank  
Maple City Savings Bank  
Medina Savings and Loan Association  
Metropolitan Life Insurance Company  
Mitsubishi UFJ Trust & Banking Corp.

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

Oneida Savings Bank  
Orange County Trust Company

Partners Trust Bank  
PathFinder Bank  
Patriot Federal Bank  
Peoples National Bank

Pioneer Savings Bank  
Provident Bank  
Putnam County National Bank of Carmel  
Putnam County Savings Bank

Redwood Bank  
Rhinebeck Savings Bank  
Ridgewood Savings Bank  
Riverside Bank  
Rome Savings Bank  
Rondout Savings Bank

Safra National Bank  
Saratoga National Bank & Trust Co.  
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  
Stissing National Bank of Pine Plains  
Suffolk County National Bank

TD Banknorth  
The Berkshire Bank (NYC)  
Tioga State Bank  
Tompkins Trust Company  
Trustco Bank

Ulster Savings Bank  
Union State Bank  
United International Bank  
Upstate National Bank

Valley National Bank  
Victory State Bank

Wachovia Corporation Community  
Development Finance  
Walden Federal Savings & Loan  
Walden Savings Bank  
Wallkill Valley Federal Savings & Loan  
Watertown Savings Bank  
Wilber National Bank

# Report on Operations

## *Ours is the opportunity business.*

Lending and community partners across New York State look to us to help them create opportunities for small businesses in their communities. We participate with our lending partners to facilitate loans to start-up and early-stage businesses as well as mature companies. We continue to focus on credit situations that challenge traditional analysis so we can provide our lending partners with options and small business with opportunity. We support our community partners with revenue-sharing, sponsorships and grants to promote economic development in their communities.

As a membership organization of banks doing business in New York, we are a very real and tangible example of the commitment of New York's banking community to economic development and its support of access to capital for small business. Our accomplishments are a tribute to the banking industry and the insight and inspiration of our many supporters in banking, economic development and government. This is a collaboration that works!

We are pleased to report another year of record activity and exciting developments. We re-established a full-time loan officer position in Rochester in recognition of the tremendous growth in our lending activities in Western New York and relocated our New York City staff to a larger office to accommodate the staff expansion necessary to handle the substantially increased volume. Our SBA loan activity (by dollar amount) put us on top in every SBA district in New York, driven by incredible growth in our 504 loan activity and sustained 7(a) lending excellence; more than 17% of the SBA approvals in New York State were processed by NYBDC or its 504 affiliate – Empire State CDC: The 504 Company!



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

Our loan activity increased 21.9% with more than \$125 million disbursed following an increase of 16.7% in FY 2006. This strong loan activity allowed us to accomplish a number of other financial milestones including the following:

- Revenue increased 13.7% to \$9.9 million.
- Pre-tax income increased 8.6% to \$2.1 million.
- The managed loan portfolio increased 15.8% to \$566.0 million.
- More than \$626,000 in third-party lender fees were paid on behalf of our lending partners – an increase of more than 85.3%.
- Our loan portfolio continued to demonstrate solid performance – no additional provision for loan losses was necessary or appropriate in FY 2007.
- More than 35% of our loans were to minority- or woman-owned businesses.

We were pleased to sponsor a number of events promoting opportunity and entrepreneurship ranging from business plan competitions in Syracuse, Utica-Rome, Albany and Poughkeepsie to conferences in Brooklyn, Hauppauge,

[\(continued on page 2\)](#)

## In Memoriam **Walter G. Rich** 1946 - 2007

*A photograph of a railroad scene along the Hudson River is displayed in the lobby of our Albany office; it was a gift from Walter. Each time we see the photograph we remember his steadfast and enthusiastic support of NYBDC. Walter joined our board in 1995. He joined the Executive and Central Loan Committees in 2003. Walter was a good friend of NYBDC, small business and economic development. Participants at our board and committee*

*meetings know that Walter was a consistent and insightful advocate for our mission and access to capital for small business. Walter was also a champion for our employees and was committed to making NYBDC a better place to work for each of them. His was a very clear voice favoring diversity in our organization, as well as in our lending. In short, he contributed immensely to NYBDC and we have much for which to remember him.*



# Report on Operations (continued from page 1)

Kingston, Rockland County and Saratoga. In FY 2007 we also established a scholarship at York College of the City University of New York for a minority or woman student majoring in business or finance. In all, we provided substantial financial support to 47 organizations in New York with \$124,000 in grants, sponsorships and revenue-sharing.

In addition to the commitment of our lending and community partners, we think it important to acknowledge the strong support and encouragement of:

- New York State Comptroller Thomas P. DiNapoli, as trustee of the New York State Common Retirement Fund (NYSCRF), and his staff. Our relationship with NYSCRF allows us to provide long-term fixed rate loans to assist small businesses throughout New York State. In addition to this long-standing financial commitment, the strong support of Comptroller DiNapoli also allowed us to establish a Veterans' Loan Program with very favorable rates and terms.
- The U.S. Small Business Administration. The leadership and professionalism of Region II Administrator William Manger and District Directors B. J. Paprocki (Syracuse) and Frank Sciortino (Buffalo) and Acting Director Herb Austin (New York City) have greatly enhanced our effectiveness.

We had some changes on our boards of directors this year. Each retiring director contributed creativity, support, energy and, most importantly, leadership to our organizations and challenged us to work harder and smarter to achieve our goals. Specifically, we express our appreciation to Statewide Zone Capital Directors William D. Danko, Walter Dixie, Brian E. Keating, John E. Mack, III and Deborah H. McAtee; Empire

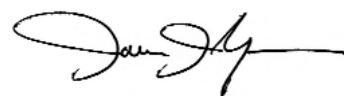
State CDC Directors Kelly A. Lovell and John E. Mack, III; and NYBDC Directors Sanford A. Belden and Nina Tyzik.

In December 2007 David A. Terrenzio will be retiring as our Executive Vice President and Senior Loan Officer. Dave's employment with NYBDC covered 17 of our most formative years. He has guided the explosive growth of our portfolio, trained the best SBA lenders in the business and has been a powerful influence on our culture. The lore of NYBDC will never be complete without recognition of Dave's pivotal role. He never sought nor desired recognition for his efforts as he worked quietly and consistently behind the scenes. However, those of us who were privileged to work with him will always appreciate the magnitude of his contribution to what we have become and our potential for the future.

Our staff continues to be passionate about our mission and our partnership with lenders and economic developers to serve small businesses. Their hard work, dedication and commitment have allowed us to achieve results that we are proud to present.

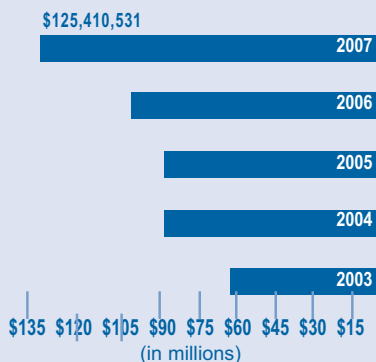


Patrick J. MacKrell  
President & CEO

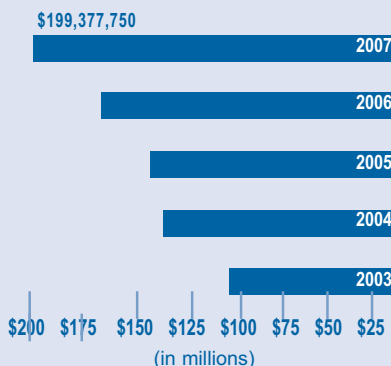


James J. Byrnes  
Chairman of the Board

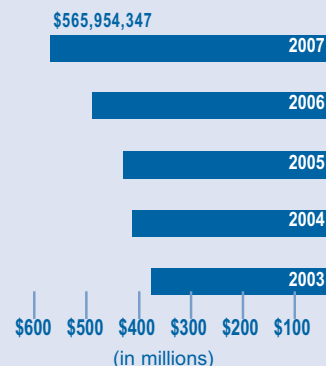
## Loan Advances Total



## Loan Approvals Total



## Loan Portfolio Managed Total



# NYBDC New York Business Development Corp. Board of Directors



**Howard M. Applebaum**  
*Executive Vice President  
Sterling National Bank  
New York, New York*



**G. Gary Berner**  
*Executive Vice President  
& Chief Lending Officer  
First Niagara Bank  
Buffalo, New York*



**Mary Bintz**  
*Senior Vice President  
& Market Manager  
Bank of America  
Albany, New York*



**Mark C. Boyce**  
*Director  
N.Y. Life Investment  
Management, LLC  
New York, New York*



**Bruce W. Boyea**  
*Chairman, President & CEO  
Security Mutual Life  
Insurance Company  
Binghamton, New York*



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



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*Senior Vice President and  
Director, Government  
Banking, Citizens Bank  
Albany, New York*



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*Senior Vice President  
JPMorgan Chase Bank  
New York, New York*



**Robert M. Curley**  
*Chairman  
Citizens Bank  
Albany, New York*



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*President  
Devitt Management  
& Associates  
Montgomery, New York*



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Hartsock**  
*Regional Director, Empire  
State Development Corp.  
Syracuse, New York*



**Hugh Donlon**  
*Managing Director  
U.S. Business Banking  
Citibank, N.A.  
Long Island City, New York*



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*Chairman  
NBT Bancorp  
Norwich, New York*



**Thomas F. Goldrick, Jr.**  
*Chairman  
State Bank of Long Island  
Jericho, New York*



**Daniel J. Hogarty, Jr.**  
*The Troy Savings Bank  
Charitable Foundation  
Troy, New York*



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*Chairman  
Johnson Illington  
Advisors, LLC  
Albany, New York*



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*Senior Vice President  
HSBC Bank USA  
New York, New York*



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*Director  
NYBDC Foundation  
Albany, New York*



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



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*Executive Director  
New York State Economic  
Development Council  
Albany, New York*



**Carl E. Meyer**  
*President & COO  
Central Hudson Gas  
& Electric Corporation  
Poughkeepsie, New York*



**Allen J. Naples**  
*Regional President  
M&T Bank  
Syracuse, New York*



**Michael Orsino**  
*President  
Hudson Valley/Metro NY  
KeyBank N.A.  
Orangeburg, New York*



**Walter Rich**  
*President & CEO  
New York, Susquehanna and  
Western Railway Corporation  
Cooperstown, New York*



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



**George Strayton**  
*President & CEO  
Provident Bank  
Montebello, New York*



**Christopher J. Taylor**  
*Executive Vice President  
& COO  
Hudson Valley Bank  
Yonkers, New York*



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

**Empire State CDC: The 504 Company** • Empire State CDC: 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% of project costs for acquisition and/or improvement of owner-occupied commercial real estate, machinery and equipment.

## Per Scholas

Bronx, New York

## Creative 504 solution supports Bronx not-for-profit



Per Scholas is in the business of transformation. It turns discarded computer equipment into working machines, unskilled workers into computer technicians and low-income South Bronx residents into computer owners. And the equipment it can't fix, it recycles.

The not-for-profit organization's work is economic development on many levels – job training, community development and more. In 2006 alone, it trained more than 265 new technicians, reconditioned and provided 5,000 computers to low-income families and recycled 150,000 units of computer equipment too far gone for repair.

When Plinio Ayala, Per Scholas' president and CEO, reached out to NYBDC to finance the purchase of a building, it seemed like a great fit with NYBDC's economic development mission. Yet there was one problem: The U.S. Small Business Administration (SBA) does not allow direct loans to not-for-profits.

NYBDC senior vice presidents Nancy Reinhart and Chet Sadowski put their heads together and came up with a creative plan. Although regulations prohibit the SBA from guaranteeing loans to not-for-profit entities, assumption of existing loans is permitted. And the owner of the building that Per Scholas wanted to buy just happened to have one. NYBDC could arrange for Per Scholas to assume the \$916,000 outstanding balance on the seller's SBA 504 loan. To Ayala, this creativity was "amazing." It made the deal possible.

The Park Avenue Bank agreed to participate with NYBDC in the first mortgage of \$1.2 million, which included funds made available to NYBDC for small business lending by the New York State Common Retirement Fund. The first mortgage commitment and the assumption of the existing SBA 504 loan provided an affordable financing package to enable Per Scholas to purchase a 40,000-square-foot facility, resulting in the creation of 10 new jobs and the retention of 50 full-time and 60 part-time positions.

*From soup to nuts, it's been outstanding. We presented what we needed, NYBDC secured the financing and the closing was smooth. "*

**– Plinio Ayala  
President and CEO  
Per Scholas**

*"Besides my family, Per Scholas is the best thing that ever happened to me. Now that I am working, I can offer a lot more to my family, including stability."*

**– Marcello Roman, Per Scholas Computer Technician Training Program Graduate**



Chet Sadowski, NYBDC; Plinio Ayala, Per Scholas;  
Susan Monaco, The Park Avenue Bank (left to right) at Per Scholas

**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 with our lending partners. NYBDC provides government guaranteed and conventional loans.

## American Motive Power, Inc.

Dansville, New York

## Working capital from NYBDC and First Niagara Bank propels locomotive service start-up



When the 500,000-square-foot Foster Wheeler industrial plant in Dansville closed in 2001, it left a gaping hole in the economy. Hundreds of skilled blue collar jobs were lost, and the empty plant became a hulking eyesore. Livingston County economic development officials targeted the site as the most important economic development need in the county, but nobody seemed to want to develop it.

That changed as a result of the creative thinking of long-term area business owner Lawrence Mehlenbacher. The gasoline crisis had elevated trucking costs, making rail freight more attractive, but the capacity to service locomotives was not keeping up with the demand. Rail freight was a healthy industry with an unserved niche.

To meet that need, Mehlenbacher started a new company, American Motive Power, Inc., and purchased the site to house it as well as to expand his existing welding/metal fabrication company, LMC Industrial Contractors, Inc. The facility was uniquely suited for locomotives. It was a huge space with clear span roof lines and rail access left from the Foster Wheeler days. There was also a substantial overhead crane system in place.

Mehlenbacher began renovations and watched his new business take off. Before he knew it, he needed considerably more working capital to keep up with orders. First Niagara Bank, which had financed the building purchase and renovations, brought NYBDC in to help capitalize the start-up, which is expected to employ between 250 and 300 people when running at full capacity. With the economic development potential of the project and First Niagara's strong faith in management, the bank and NYBDC came in with \$2 million in financing. This important financing was made possible with funds under NYBDC's loan agreement with the New York State Common Retirement Fund and a guaranty through the SBA 7(a) program.

*"This loan will have a significant effect on the ability of the company to be a long-term, viable enterprise. And it was the best deal we could have put together."*

**–Tom Coll, CFO  
American Motive Power, Inc.**

*"The former Foster Wheeler plant had been the anchor for the economy of southern Livingston County. Acquisition of this vacant industrial property, restoring it to life and employing 300 people is a miracle of development, and NYBDC's role was very important in making this a productive facility again."*

**– Patrick Rountree, Executive Director, Livingston County IDA**

*"We partnered with Steve Willard and his team at NYBDC because we believed their economic development focus and SBA knowledge would allow us to structure the best financing package for a rapidly growing, high potential industrial business. We were able to increase the facility through risk sharing and leveraging the NYBDC's SBA expertise."*

**– Robert Moore, Vice President, Corporate Banking, First Niagara Bank**



Tom Coll, American Motive Power; Robert Moore, First Niagara Bank; Steven Willard, NYBDC (left to right) at American Motive Power

**Empire State CDC: The 504 Company** • We enjoyed explosive growth in this loan program during FY 2007, as our approvals exceeded \$162 million, a 44.0% increase over FY 2006. Our national ranking among the 282 certified development companies improved from 11 to 9.

## Traffic Lane Closures, LLC

Kent, New York

**Partners work together to provide quick turnaround on financing for construction supply company**

It's highly appropriate that Teresa Rosenfeld began Traffic Lane Closures, LLC in the garage of her home.

Teresa Rosenfeld launched the company, which provides highway construction supplies, materials and equipment, ten years ago with an initial investment of \$14,000. Since then, Traffic Lane Closures has grown into a \$3 million-a-year company.

The need to accommodate that growth led to purchase of a \$1.7 million, 28,000-square-foot facility in Kent financed by Mahopac National Bank and Empire State CDC: The 504 Company.

The company found a suitable building and a motivated seller who wanted to close the deal quickly. Mahopac National Bank, which had been the company's bank from the start, brought in The 504 Company for an SBA 504 loan.

The financial institutions only had five weeks from the first meeting to closing, so they needed to move quickly. They made the deadline. Mahopac National Bank provided a first mortgage of \$850,000. The 504 Company provided a second mortgage of \$680,000. NYBDC Vice President and Hudson Valley Regional Manager Tom McHale worked closely with Mahopac National Bank Senior Vice President John Kraus to get the deal done.

The new building offers a more efficient workplace and the opportunity to expand operations. The company can now do some inside installations of equipment – such as truck-mounted attenuators and arrow boards, which protect construction workers from vehicular accidents while working on state roadways. The expansion enabled Traffic Lane Closures to increase staff from six to 10, with additional hires planned.

*“It was fabulous. I couldn't believe how quickly this got done. Tom McHale took time to really understand what we were doing, and our strong relationship with the bank also helped tremendously.”*

**– Teresa Rosenfeld  
President and Owner  
Traffic Lane Closures**



*“We have done a number of SBA 504 loans with NYBDC and have a wonderful relationship with them. This was one of the quickest from the time of application to the time of closing. All parties cooperated, so the process was very smooth.”*

**– John Kraus, Senior Vice President  
Mahopac National Bank**



Thomas McHale, NYBDC; Teresa Rosenfeld, Traffic Lane Closures;  
Vicki Batten, Mahopac National Bank (left to right) at Traffic Lane Closures

**Statewide Zone Capital Corporation (SZCC)** • SZCC is a zone capital corporation created to provide loans to zone-certified companies in New York State on favorable terms. The purpose of the loan program is to stimulate economic development and opportunity in New York's Empire Zones. This capital access program is available for working capital, acquisition and/or improvement of real property and equipment.

## Northern Lights Enterprises, Inc.

Wellsville, New York

## Multiple financing sources keep growing candle manufacturer headquartered in New York State

Andrew and Christina Glanzman love Wellsville, where they started Northern Lights Enterprises, Inc. almost 30 years ago, making candles in the kitchen of their home. Today, they employ 160 people and are manufacturers, importers and distributors using high-tech equipment and selling across the United States and beyond.

Over the years, the Glanzmans received offers from outside New York looking to lure them to move their operation, but Wellsville had become "home" to these transplants from New York City, and the couple wanted to stay.

When the Ames store next to their plant closed, they considered it the perfect location for expansion. With 92,000 square feet on 22 acres, it would enable the company to grow significantly.

Lyman Buck, a senior vice president at KeyBank who had worked with Northern Lights for years, wanted to find a way for this important client to purchase the property, and turned to NYBDC to help with financing. He knew that the SBA 504 program, through Empire State CDC: The 504 Company, would enable Northern Lights to lower its down payment so it could acquire the property and retain the cash flow needed to expand the business. In addition, because the property is in an Empire Zone, he knew the business was eligible for financing from Statewide Zone Capital Corp. (SZCC), a loan program for zone-certified businesses managed by NYBDC.

With \$2 million in financing from KeyBank, The 504 Company and SZCC, the Glanzmans purchased the former Ames and the property around it. They also used a portion of the financing to renovate the building and purchase equipment.

For Andrew, the purchase means that he and Christina will get to run their business in Wellsville no matter how large it grows. Around 80 percent of their products are manufactured in New York State, and he is proud to be an American manufacturer. Knowing that he's up against inexpensive imported goods just makes him more determined to build quality and innovation into his products.

His business model has worked and the company continues to grow.

*"This expansion helped keep us here in Wellsville. It was a great thing for us and we're very grateful. Manufacturing builds economies, and we're proud to be a successful American manufacturer."*

**—Andrew Glanzman  
Owner, Northern Lights**

**Northern Lights  
Candles™**

*"We brought in NYBDC to look for the right term and the right rate. Discussion of this project had been going on for two years. NYBDC and the bank both had the patience that allowed it to come to fruition."*

**– Lyman Buck, Senior Vice President, KeyBank**





Andrew Glanzman, Northern Lights Enterprises; Lyman Buck, KeyBank;  
Curt Solomon, NYBDC (left to right) at Northern Lights Enterprises

### Binghamton Region

#### Ronald Lesch \*

Senior Vice President  
Partners Trust Bank  
Binghamton, New York

#### Ronald G. Goodwin

Vice President, NBT Bank  
Vestal, New York

#### Douglas Gulotty

President & CEO, Wilber National Bank  
Oneonta, New York

#### Ralph Kelsey

Senior Vice President, Tioga State Bank  
Spencer, New York

#### Glenn Small

President-Southern Division, M&T Bank  
Binghamton, New York

### Capital District-Champlain Region

#### Mary Bintz \*

Senior Vice President & Market  
Manager, Bank of America  
Albany, New York

#### Peter Clemente

Senior Vice President, HSBC Bank USA  
Albany, New York

#### Richard Ferguson

Vice President  
The Adirondack Trust Company  
Saratoga Springs, New York

#### Robert C. Hergrueter

Senior Vice President, TD Banknorth  
Latham, New York

#### Beth Muthersbaugh

Vice President, First Niagara Bank  
Albany, New York

#### Charles Robinson

Vice President, M&T Bank  
Albany, New York

#### Richard Sherwin

Senior Vice President, KeyBank  
Albany, New York

### Elmira Region

#### Thomas Savoldy \*

Vice President & Regional Manager  
M&T Bank  
Endicott, New York

#### George Bowen

Vice President, Tioga State Bank  
Spencer, New York

#### Richard Carr

Senior Vice President  
Chemung Canal Trust Company

#### William M. Hodel

Senior Vice President  
Elmira Savings Bank  
Elmira, New York

#### Stephen Hoyt

Senior Vice President  
Tompkins Trust Company  
Ithaca, New York

### Mid-Hudson Region

#### Paul Calogerakis \*

Senior Vice President, KeyBank  
White Plains, New York

#### Robert Ambrose

Vice President, Walden Savings Bank  
Montgomery, New York

#### James Davenport

Vice President, Rondout Savings Bank  
Kingston, New York

#### John R. Kraus

Senior Vice President  
Mahopac National Bank  
Brewster, New York

#### Frank Synan

Vice President, M&T Bank  
Fishkill, New York

### Mohawk Valley Region

#### Rocco F. Arcuri, Sr. \*

Executive Vice President  
Adirondack Bank  
Utica, New York

#### John F. Buffa

Senior Vice President, NBT Bank  
New Hartford, New York

#### Kevin Kent

Vice President, Community Bank  
Lowville, New York

#### David Manzelmann

Senior Vice President  
Partners Trust Bank  
Utica, New York

#### James F. Sullivan

Vice President, Rome Savings Bank  
Rome, New York

#### Ben Ziskin

Vice President, First Niagara Bank  
Amsterdam, New York

### Nassau-Suffolk Region

#### John Garvey \*

Senior Vice President, North Fork Bank  
Melville, New York

#### Doug Asofsky

Senior Vice President, Citibank, N.A.  
Uniondale, New York

#### Frederick C. Braun, III

Executive Vice President  
State Bank of Long Island  
Jericho, New York

#### Steven P. Cavaluzzo

Regional Vice President  
Commerce Bank  
Melville, New York

#### Brian A. Foster

First Vice President, Sovereign Bank  
Melville, New York

#### Theresa Kelly

Senior Vice President  
Flushing Savings Bank  
Lake Success, New York

#### Robert Stromberg

Senior Vice President, JPMorgan Chase  
New Hyde Park, New York

### New York City Region

#### Henry H. Auffarth \*

Senior Vice President & Managing  
Director, Citibank  
Harrison, New York

#### Peter A. Appello

Senior Vice President, Market Manager  
Bank of America  
New York, New York

#### Richard Eng

Vice President, Flushing Savings Bank  
Bayside, New York

#### Robert Jussen

Senior Vice President & Executive  
Credit Officer, HSBC Bank USA  
New York, New York

#### Mark Noto

Senior Vice President, Banco Popular  
New York, New York

### Niagara-Southwestern Region

#### Alfred F. Luhr, III \*

Senior Vice President, M&T Bank  
Amherst, New York

#### John Cinquino

First Vice President  
First Niagara Bank  
Buffalo, New York

#### Brian D. Donahue

Senior Vice President &  
Chief Credit Officer  
Community Bank  
Olean, New York

#### Dennis P. Farrell

Senior Vice President, HSBC Bank USA  
Hamburg, New York

#### William R. Glass

Senior Vice President  
Evans National Bank  
Hamburg, New York

#### Sharon Lochocki

Senior Vice President, KeyBank  
Buffalo, New York

### Northern Region

#### Michelle D. Pfaff \*

Vice President, Community Bank  
Watertown, New York

#### Thomas G. Cesta

Vice President, HSBC Bank USA  
Watertown, New York

#### Bradley Clark

President, Watertown Savings Bank  
Watertown, New York

#### Thomas Penn

Vice President  
Gouverneur Savings & Loan  
Alexandria Bay, New York

#### Steven M. Pierce

Vice President, KeyBank  
Watertown, New York

### Rochester Region

#### Walter Roman \*

Vice President, HSBC Bank USA  
Rochester, New York

#### Steven Epping

Vice President, M&T Bank  
Rochester, New York

#### Richard H. Ferrari

Vice President, First Niagara Bank  
Rochester, New York

#### Keith Gobel

Vice President  
Canandaigua National Bank  
Pittsford, New York

#### Steven Rich

Vice President, Community Bank  
Geneva, New York

#### David Watson

Corporate Risk Manager  
Five Star Bank  
Warsaw, New York

### Syracuse Region

#### Mark Wheeler \*

Vice President, HSBC Bank  
Syracuse, New York

\* Denotes Committee Chairman

(continued on next page)

### Lee De Amicis

*Administrative Vice President  
M&T Bank  
Syracuse, New York*

### Kathy L. Davis

*Senior Vice President, Alliance Bank  
Cortland, New York*

### James V. Finocchio, Jr.

*Senior Vice President & Chief  
Lending Officer, Solvay Bank  
Solvay, New York*

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White Plains, New York*

### Thomas Linehan

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Lyons, New York*

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NBT Bank  
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### David De La Vergne

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Perry, New York*

### Hans Kunze

*Senior Vice President, Steuben Trust  
Geneseo, New York*

### Thomas M. Shephard

*President, Agri-Edge Development  
Dairylea Cooperative, Inc.  
Syracuse, New York*

\* Denotes Committee Chairman

# NYBDC Foundation

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Yonkers, New York*

*"The New York Bankers Association and its over 150 member commercial banks and thrift institutions applaud the dynamic work of the NYBDC in its critical efforts to fuel the credit needs of small business and, in turn, the growth of New York State."*

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



*"NYBDC is established as one of the 'go to' lenders in New York State for small businesses seeking to grow and expand. Working with NYBDC staff is always beneficial for the business because of their attitude of how to make a project work, rather than why a project won't work. Whether it's a complicated multi-lender deal, bridge financing or a federally guaranteed loan, NYBDC helps make it happen in every corner of New York State. The SBDC highly values its partnership with NYBDC to improve access to capital for growth in New York State."*

– James King  
State Director, New York State  
Small Business Development Center



# The 504 Company

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### Noel R. Murphy

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Economic Development and Planning  
Middletown, New York

### Madeline B. Taylor

President, Albany-Colonie Regional  
Chamber of Commerce  
Albany, New York

# SZCC

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Senior Vice President, Citibank  
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Economic Development and Planning  
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### Daniel Burke

Glens Falls Regional President  
NBT Bank  
Glens Falls, New York

### Robert J. Camoin

Principal, Camoin Associates  
Saratoga Springs, New York

### Michael Claisse

Vice President, The Bank of New York  
New York, New York

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Development Corporation  
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Brooklyn Chamber of Commerce  
Brooklyn, New York

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### Patrick J. MacKrell

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### William Mannix

Executive Director  
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Development  
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### Richard W. Merzbacher

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Jericho, New York

### Frederick H. Quist

Zone Coordinator  
Amsterdam-Florida-Glen  
Empire Zone  
Amsterdam, New York

### Charles E. Robinson

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M&T Bank  
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### Robert W. Schwartz

President  
Schwartz, Heslin Group  
Latham, New York

### Stephan von Schenk

Executive Vice President  
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Saratoga Springs, New York

### Christopher J. Taylor

Executive Vice President & COO  
Hudson Valley Bank  
Yonkers, New York

### Donald J. Western

Director  
Onondaga County Industrial  
Development Agency  
Syracuse, New York

"As the leading provider of low-cost capital for small businesses, NYBDC and its member banks are fueling the expansion of New York's economy. Small businesses are leading the way as innovators and job creators globally and in New York, and NYBDC is an important partner in their growth."



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

"SBA shares NYBDC's vision for creating jobs and stimulating economic improvement across upstate New York through the creation of vibrant small businesses. We appreciate our partnership with NYBDC and Empire State CDC: The 504 Company; together we increase access to capital for small business owners through the SBA's 504 and 7(a) loan programs."



– B. J. Paprocki  
Syracuse District Director  
U.S. Small Business Administration

## Stockholders

Adirondack Trust Company	Delaware National Bank of Delhi	Joseph Davis, Inc.	Procter & Gamble Pharmaceuticals, Inc.
Bank of America	Drof & Company	KeyBank	ReliaStar Life Insurance Company of New York
Bank of Castile	Economic Development Council of the Southern Tier, Inc.	KeyCorp	Rochester Business Alliance
Bank of Greene County	Elmira Savings Bank	KeySpan Corporation	Rochester Gas & Electric Corporation
Bank of New York	Federal Deposit Insurance Corp. (FDIC)	M&T Bank	Security Mutual Life Insurance Company of New York
Barclays Bank	Finch, Barbara L.S.	Mohawk Valley Chamber of Commerce	Shults, David A.
Cattaraugus County Bank	First Albany Corporation	Montgomery County Chamber of Commerce	Sovereign Bank
Central Hudson Gas & Electric Corporation	First Niagara Bank	MONY Financial Services	Starwood Hotels & Resorts Worldwide, Inc.
Chamber of Commerce of Orange County	Flushing Savings Bank	National Bank of Stamford	State Bank of Long Island
Chemung Financial Corporation	Fulton Savings Bank	National Grid	Steuben Trust Company
Chenango County Chamber of Commerce	Glens Falls National Bank & Trust Company	NatWest Equity Corporation	TD Banknorth
Citizens Bank	Global Crossing North America, Inc.	NBT Bancorp, Inc.	Teachers Insurance & Annuity Association of America
Citizen's Communications	Guardian Life Insurance Company of America	New York Life Insurance Company	Tioga State Bank
Columbian Mutual Life Insurance Company	HSBC Bank USA	New York State Electric & Gas Company	Tompkins Trust Company
Combined Life Insurance Company of New York	Homestead Financial Services	North Fork Bank	Ulster Savings Bank
Community Bank	Hope Gas, Inc.	Northeastern New York Community Trust	Union State Bank
Council of Industry	JPMorgan Chase Bank	Orange County Trust Company	Verizon Communications
Courtland Investments, Inc.	JPMorgan Chase Community Development Corporation	Partners Trust Bank	Wachovia Bank
Delaware and Hudson Railway Company	Jeffersonville Bancorp	PathFinder Bank	Washington Mutual Bank
		Phoenix Home Life Mutual Insurance Company	Wilber National Bank
		Pleasant Valley Wine Company	

## Corporate Officers

<b>James J. Byrnes</b> <i>Chairman of the Board</i>	<b>Michael L. Kinum</b> <i>Vice President and General Counsel</i>	<b>Shelley D. Smith</b> <i>Vice President</i>	<b>Richard A. Amsterdam</b> <i>Assistant Vice President</i>
<b>Bruce W. Boyea</b> <i>Vice Chairman</i>	<b>Peter Van Nostrand</b> <i>Vice President and Treasurer</i>	<b>Steven L. Smith</b> <i>Vice President</i>	<b>Marlies M. Capobianco</b> <i>Assistant Vice President</i>
<b>Patrick J. MacKrell</b> <i>President &amp; CEO</i>	<b>Cedric A. Carter</b> <i>Vice President</i>	<b>Curt V. Solomon</b> <i>Vice President</i>	<b>Amy L. Esposito</b> <i>Assistant Vice President</i>
<b>David A. Terrenzio</b> <i>Executive Vice President and Senior Loan Officer</i>	<b>James J. Conroy, III</b> <i>Vice President</i>	<b>Michael A. Taylor</b> <i>Vice President</i>	<b>Sabrina N. Gillson</b> <i>Assistant Vice President</i>
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<b>Nancy A. Reinhart</b> <i>Senior Vice President</i>	<b>Stanley F. Grochocki</b> <i>Vice President</i>	<b>Steven M. Willard</b> <i>Vice President</i>	<b>Thomas L. Reynolds</b> <i>Assistant Vice President</i>
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	<b>Kevin G. O'Leary</b> <i>Vice President</i>	<b>Rachel Aiello</b> <i>Assistant Vice President</i>	

**Combined Statements of Financial Condition**  
**September 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Loans receivable, net	\$ 120,709,162	\$ 116,386,894
Cash	144,071	189,006
Restricted cash	1,220,406	762,500
Accrued interest receivable	775,549	740,638
Deferred tax benefits	2,745,728	2,619,309
Other assets	2,257,735	2,139,542
Total assets	\$ 127,852,651	\$ 122,837,889
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Notes payable:		
Members	\$ 8,500,000	\$ 8,500,000
New York State Common Retirement Fund	64,231,907	59,918,829
Bank lines of credit	15,525,000	19,500,000
Bank term loans	13,061,830	10,412,866
Other obligations	5,558,692	4,913,570
Total notes payable	106,877,429	103,245,265
Accrued interest payable	484,536	476,327
Accrued expenses and other liabilities	2,723,039	2,349,915
Total liabilities	110,085,004	106,071,507
<b>Equity</b>		
Capital stock, no par value, authorized 500,000 shares; issued and outstanding 218,038 and 218,872, respectively; \$5 stated value per share	1,090,190	1,094,360
Paid-in capital	3,615,039	3,673,098
Retained earnings	12,279,141	11,552,147
Accumulated other comprehensive items	(17,400)	(17,400)
Total stockholders' equity	16,966,970	16,302,205
Net assets of Empire State Certified Development Corporation	800,677	464,177
Total equity	17,767,647	16,766,382
Total liabilities and equity	\$ 127,852,651	\$ 122,837,889

See Notes to Combined Financial Statements.

**Combined Statements of Operations**  
**Years Ended September 30, 2007 and 2006**

	2007	2006
Interest income	\$ 10,001,851	\$ 9,215,893
Interest expense	6,115,321	5,550,019
<b>Net interest income</b>	3,886,530	3,665,874
Provision for loan losses	-	150,000
<b>Net interest income after provision for loan losses</b>	3,886,530	3,515,874
Fees and other income	5,972,128	5,154,242
<b>Income before operating expenses</b>	9,858,658	8,670,116
<b>Operating expenses:</b>		
Salaries and employee benefits	5,104,666	4,537,450
Other expenses	2,654,772	2,200,474
Total operating expenses	7,759,438	6,737,924
<b>Income before provision for income taxes</b>	2,099,220	1,932,192
Provision for income taxes	861,296	734,299
<b>Net income</b>	\$ 1,237,924	\$ 1,197,893

See Notes to Combined Financial Statements.

**Combined Statements of Changes in Equity  
Years Ended September 30, 2007 and 2006**

	Capital Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Items	Total Stockholders' Equity	ESCDC Net Assets	Total Equity
Balance at September 30, 2005	\$ 1,094,360	\$3,673,098	\$10,660,021	\$ 12,516	\$ 15,439,995	\$ 321,930	\$ 15,761,925
Comprehensive income:							
Net income:							
New York Business							
Development Corporation	—	—	1,055,646	—	1,055,646	—	1,055,646
Empire State Certified							
Development Corporation	—	—	—	—	—	142,247	142,247
Total net income							1,197,893
Other comprehensive items							
Unrealized gain on investments, net of taxes	—	—	—	(29,916)	(29,916)	—	(29,916)
Total comprehensive income							1,167,977
Dividends declared	—	—	(163,520)	—	(163,520)	—	(163,520)
Balance at September 30, 2006	1,094,360	3,673,098	11,552,147	(17,400)	16,302,205	464,177	16,766,382
Comprehensive income:							
Net income:							
New York Business							
Development Corporation	—	—	901,424	—	901,424	—	901,424
Empire State Certified							
Development Corporation	—	—	—	—	—	336,500	336,500
Total net income							1,237,924
Other comprehensive items							
Unrealized loss on investments, net of taxes	—	—	—	—	—	—	—
Total comprehensive income							1,237,924
Redemption of capital stock (846 shares)	(4,230)	(58,899)			(63,129)		(63,129)
Issuance of capital stock (12 shares)	60	840			900		900
Dividends declared	—	—	(174,430)	—	(174,430)	—	(174,430)
Balance at September 30, 2007	\$ 1,090,190	\$3,615,039	\$12,279,141	\$ (17,400)	\$ 16,966,970	\$ 800,677	\$ 17,767,647

See Notes to Combined Financial Statements.

**NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

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

NYBDC is also associated with Statewide Zone Capital Corporation of New York (Statewide), a privately-owned loan and investment fund, organized in 1999, whose capital is available to promote the expansion and growth of businesses in New York's participating 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 \$1.5 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 15 years, depending upon the purpose of the loan.

**Reporting Policy:** The combined financial statements include the accounts of NYBDC and ESCDC (collectively referred to as the "Company"). The combined financial statements do not include the accounts of Statewide. 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 in which it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the loan agreement, 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 generally 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 3).

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, 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 3). Such cash is designated as the Uninvested Collateral Account and pledged against these borrowings.

**Fees and Other Income:** Fees and other income are principally derived from servicing and processing fees earned by ESCDC (approximating \$4,779,000 and \$3,917,000 in the fiscal years ending September 30, 2007 and 2006, respectively), fees paid by Statewide (approximating \$244,000 and \$234,000 in the fiscal years ending September 30, 2007 and 2006, respectively), and certain closing fees (approximating \$375,000 and \$366,000 in the fiscal years ending September 30, 2007 and 2006, respectively).

**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 (see Note 4). 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 benefits (an asset account) represent 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.

## Combined Statements of Cash Flows Years Ended September 30, 2007 and 2006

	2007	2006
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 1,237,924	\$ 1,197,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	136,476	126,245
Provision for loan losses	–	150,000
Deferred tax benefits	(126,419)	396,390
Changes in:		
Other assets	(178,912)	1,287,274
Other liabilities	206,903	(1,269,316)
Net cash provided by operating activities	1,275,972	1,888,486
<b>Cash Flows From Investing Activities</b>		
Loans disbursed, net of participations	(74,207,319)	(64,438,020)
Loan payments received	69,885,051	50,370,548
Change in restricted cash	(457,906)	1,305,263
Purchase of furniture and equipment	(110,668)	(144,551)
Net cash used in investing activities	(4,890,842)	(12,906,760)
<b>Cash Flows From Financing Activities</b>		
Net advances on borrowings	3,632,164	10,703,655
Issuance of capital stock	900	–
Redemption of capital stock	(63,129)	–
Net cash provided by financing activities	3,569,935	10,703,655
<b>Net change in cash</b>	<b>(44,935)</b>	<b>(314,619)</b>
Cash, beginning of year	189,006	503,625
Cash, end of year	\$ 144,071	\$ 189,006
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for:		
Interest	\$ 6,107,112	\$ 5,477,891
Income taxes	\$ 1,070,445	\$ 337,880

See Notes to Combined Financial Statements.

**Other Assets:** Other assets include both non-marketable equity investments and marketable securities approximating \$1,277,000 and \$1,147,000 at September 30, 2007 and 2006, respectively. Other assets also include furniture and equipment, prepaids, and certain other assets. With respect to unrealized gains and losses on investment securities, such items, net of tax, are classified as other comprehensive items. When applicable, impairment losses, other than temporary declines in the fair value of investment securities, are charged to earnings.

**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 2006 financial statements have been reclassified to conform with the current year presentation.

### 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	
	2007	2006
Loans receivable	\$ 126,886,822	\$ 122,837,225
Less allowance for loan losses	(6,177,660)	(6,450,331)
Loans receivable, net	\$ 120,709,162	\$ 116,386,894

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. 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	
	2007	2006
Balance, beginning of year	\$ 6,450,331	\$ 6,230,435
Provision for loan losses	–	150,000
Recoveries credited to the allowance	44,304	235,654
Losses charged to the allowance	(316,975)	(165,758)
Balance, end of year	\$ 6,177,660	\$ 6,450,331

Loans on which the accrual of interest has been discontinued approximated \$3,336,000 and \$1,893,000 September 30, 2007 and 2006, respectively.

Loans serviced for others are not included in the accompanying statements of financial condition. The unpaid principal balances of these loans are summarized as follows:

	September 30	
	2007	2006
ESCDC loans funded by SBA	\$ 351,322,879	\$ 288,237,974
Bank participations	56,247,177	47,340,973
	\$ 407,570,056	\$ 335,578,947

### NOTE 3 — 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 establishing NYBDC. The loan limit available from members was \$61.9 million at September 30, 2007.

Calls on members are made for maturities of one year with the September 30, 2007 outstanding loan balances maturing August 1, 2008. 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 150 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 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 \$200,000,000. 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, 2007 and 2006, the outstanding balance on these loans were \$64,231,907 and \$59,918,829, 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 declaration or payment of dividends, and restrictions on providing any guarantees.

### Bank Line of Credit Borrowings

NYBDC has available lines of credit with various banks (including members) totaling \$46 million at September 30, 2007. The amounts outstanding on these lines at September 30, 2007 and 2006 were \$15,525,000 and \$19,500,000, 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 term borrowings of \$19 million. Interest on the borrowings are determined based on a spread over the applicable Treasury note rate (approximating 6.29% at September 30, 2007). The amounts outstanding under the term agreements were \$13,061,830 and \$10,412,866 at September 30, 2007 and 2006, respectively. The agreements provide for annual principal reduction payments, dependent upon the amount of borrowings, which currently approximates \$886,000.

### New York State Teachers' Retirement System Borrowings

NYBDC has entered into a loan agreement with the New York State Teachers' Retirement System (the "System") under which the System would make available to NYBDC an aggregate principal amount not to exceed \$50,000,000. The proceeds of this loan are to be used by NYBDC to extend credit to small businesses operating in New York State.

Under the agreement, any advances under the loan will bear interest at 1.8% to 2.2% (dependent on the ratio of loan to secured value) above a treasury note yield, adjusted to a constant maturity of ten years. As of September 30, 2007, there were no borrowings under this agreement.

### Other Obligations

Other obligations principally include advances from Statewide relating to the funding requirements of Statewide loans of approximately \$4.1 million and \$3.4 million at September 30, 2007 and 2006, respectively. Such advances bear interest and provide for repayment terms which generally parallel the underlying loan receivable terms.

Other obligations also include term notes with New York Small Business Venture Fund, LLC, a privately held economic development company. This unsecured obligation, in the amount of \$1.5 million at both September 30, 2007 and 2006, bears interest at 5.73%. The agreement provides for monthly interest payments and the payment of principal at maturity.

## NOTE 4 — INCOME TAXES

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

	2007	2006
Current taxes		
Federal	\$ 778,298	\$ 382,441
State and city	209,417	76,469
Deferred tax (benefit)	(126,419)	275,389
Net provision	\$ 861,296	\$ 734,299

As of September 30, 2007 and 2006, deferred tax assets recognized for deductible temporary differences approximated \$2,746,000 and \$2,619,000, 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.

## NOTE 5 — EMPLOYEE BENEFIT PLANS

NYBDC maintains a salary reduction (401-k) plan, a Supplemental Executive Retirement Plan (SERP), and a defined benefit pension plan.

The salary reduction (401-k) plan allows employees to defer and contribute up to 10% of their salary into the plan with the employer matching the employees' contributions up to 6%, subject to certain limitations imposed by the Internal Revenue Services. The plan is funded on a current basis. The expense for the plan was approximately \$196,000 and \$148,000 for the years ended September 30, 2007 and 2006, 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, which approximates the accrued benefit under the SERP, is based on actuarial calculations and approximated \$95,000 and \$45,000 at September 30, 2007 and 2006, respectively. The expense for the SERP was approximately \$50,000 and \$389,000 for the years ended September 30, 2007 and 2006, respectively. A significant portion of the obligation under the SERP, approximating \$1,270,000, was paid during the fiscal year ending September 30, 2006 and funded by the Company's liquidation of certain marketable securities designated for this purpose.

Prior to 2007, the Company maintained a multiple-employer defined benefit pension plan with the New York State Bankers Retirement System. As of December 31, 2006, the Company provided notice to its employees of its intent to freeze benefit obligations under this Plan. Accordingly, as of that date, all accrued benefits were fully vested and no additional years of service or age accrued. The impact of this curtailment is a factor in the 2007 actuarial information disclosed below:

	2007	2006
Projected benefit obligation	\$ (2,746,461)	\$ (2,657,478)
Fair value of plan assets	2,696,007	2,534,926
Funded status	\$ (50,454)	\$ (122,552)
Net periodic pension cost	\$ 171,082	\$ 230,019
Employer contributions	\$ —	\$ 546,443
Benefits paid	\$ 67,326	\$ 55,243
Accumulated benefit obligation	\$ 2,746,461	\$ 2,062,648
Prepaid (accrued) pension cost recognized in the statement of financial condition	\$ (43,000)	\$ 128,082
Weighted average assumptions used to determine both the benefit obligation and the net benefit cost for the years ended September 30:		
Discount rate	5.00%	6.00%
Expected return on plan assets	5.00%	7.50%
Rate of compensation increase	N/A	3.50%

**Plan Assets:** The Plan's weighted-average asset allocations, by asset category, are as follows:

Asset Category	Plan Assets September 30	
	2007	2006
Equity securities	0.0%	59.8%
Debt securities	0.0%	39.9%
Cash equivalents	100.0%	0.3%
Total	100.0%	100.0%

**Investment Policies:** The New York State Bankers Retirement System (the "System") was established in 1938 to provide for the payment of benefits to employees of participating banks. The System is overseen by a Board of Trustees who set the investment policy guidelines.

The System utilizes two investment management firms. The System's investment objective is to exceed the investment benchmarks in each asset category. Each firm operates under a separate written investment policy designed to achieve an allocation approximating 60% invested in equity securities and 40% invested in debt securities. Concurrent with the curtailment of the Plan, all investments were allocated to cash equivalents.

**Expected Long-Term Rate of Return:** The expected long-term rate of return on plan assets reflects long-term earnings expectations on existing plan assets and those contributions expected to be received during the current year. In estimating that rate, appropriate consideration is given to historical returns earned by plan assets in the fund and the rates of return expected to be available for reinvestment. Average rates of return over the past 1, 3, 5, and 10 year periods were determined and subsequently adjusted to reflect current capital market assumptions and changes in investment allocations.

**Contributions:** Since the plan is frozen, future year contributions, if any, are not expected to be material.

**Curtailment Gain:** The 2007 actuarial computation resulted in a curtailment gain which is estimated to approximate \$450,000. This gain, however, is expected to be fully offset by a 2008 actuarial loss upon settlement and, as such, has not been recorded.

**Estimated Future Benefit Payments:** There are no estimated future benefits expected to be paid during 2008.

The total expense for all NYBDC employee benefit plans was approximately \$421,000 and \$542,000 for the years ended September 30, 2007 and 2006, respectively.

## NOTE 6 — FAIR VALUE OF FINANCIAL INSTRUMENTS

Under generally accepted accounting principles, the Company is required to disclose the estimated fair value of its financial instruments. A financial instrument is cash, evidence of an ownership interest in an entity, or a contract which imposes on one entity a contractual obligation to deliver cash or other financial instruments to a second entity which has comparable contractual rights.

The fair value of a financial instrument is the current amount that would be exchanged between willing and unrelated parties. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on management's estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

**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.

The estimated fair values and related recorded amounts of the Company's financial instruments are as follows:

	September 30 (Dollars in Thousands)			
	2007		2006	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
<b>Financial assets:</b>				
Loans receivable, net	\$ 120,709	\$122,320	\$117,949	\$119,401
Cash	144	144	189	189
Restricted cash	1,220	1,220	763	763
Accrued interest receivable	776	776	741	741
<b>Financial liabilities:</b>				
Notes payable	106,877	102,884	103,245	99,478
Accrued interest payable	484	484	476	476

## NOTE 7 — COMMITMENTS AND CONTINGENCIES

### Commitments with Off-Balance-Sheet Risk

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

Loan commitments are as follows at September 30, 2007:

	Number of Loans	Amount
Loans authorized, but not fully disbursed to borrowers	62	\$ 46,411,750
Less estimated bank participations on loan commitments		(22,825,150)
<b>Net outstanding loan commitments</b>	<b>62</b>	<b>\$ 23,586,600</b>

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, 2007, future rent commitments due under leases with terms in excess of one year approximate \$2,000,000. A substantial portion of this commitment relates to NYBDC's office facility in New York City. Under this ten year lease, the Company's annual base rental commitment ranges from approximately \$100,000 to approximately \$135,000 (in 2017).

Total occupancy costs were approximately \$354,000 and \$316,000 for the years ended September 30, 2007 and 2006, 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 contracts is, in part, dependent upon the State's economy.



## Report of Independent Auditors

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 as of September 30, 2007 and 2006, 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 Company'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 as of September 30, 2007 and 2006, 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.

*UHY*

Albany, New York  
November 8, 2007

# Community Partners provide loan referrals to NYBDC

Adirondack Economic Development  
 Albany-Colonie Regional Chamber  
 of Commerce  
 Albany Local Development  
 Amherst Industrial Development  
 Bronx Overall Economic Development  
 Brooklyn Economic Development  
 Broome County Industrial Development  
 Catskill Watershed  
 Cattaraugus Empire Zone Corp.  
 Central New York Regional Planning  
 & Development Board  
 Chamber of Schenectady County  
 Clinton County Area Development  
 Community Development Corporation of  
 Long Island  
 Cortland County BDC-IDA  
 County of Chautauqua Industrial  
 Development  
 County of Otsego Industrial Development  
 Development Authority of the North Country  
 Dutchess County Economic Development  
 East Williamsburg Valley Industrial  
 Development  
 Economic Development Corporation  
 (Warren County)  
 Erie County Industrial Development  
 Essex County Industrial Development  
 Genesee County Economic Development  
 Herkimer County Industrial Development  
 Agency

Hudson Development  
 Livingston County Industrial Development  
 Local Development Corporation of East  
 New York  
 Local Development Corporation of Laurelton,  
 Rosedale and Springfield Gardens  
 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  
 NFC Development  
 New York State Small Business  
 Development Centers  
 Ontario County Industrial Development  
 Orange County Business Development  
 Orange County Partnership  
 Putnam County Economic Development  
 Queens Economic Development Corp.  
 REDEC Relending  
 Rensselaer County Industrial Development  
 Rensselaer Gateway Development  
 Rockaway Development and Revitalization  
 Rockland Business Association  
 Rockland Economic Development  
 Rome Industrial Development  
 Saratoga Economic Development  
 Schenectady Economic Development  
 Schoharie County Planning and Development

Schuyler County Partnership for Economic  
 Development  
 Seneca County Industrial Development  
 Southern Tier Economic Growth  
 Southwest Brooklyn Industrial Development  
 Sullivan County Chamber of Commerce  
 Sullivan County Partnership for Economic  
 Development  
 The Business Council of Westchester  
 The County of Orleans Industrial  
 Development  
 Tier Information and Enterprise  
 Resources, Inc.  
 Tioga County Economic Development  
 & Planning  
 Tompkins County Area Development, Inc.  
 Ulster County Development Corp.  
 Washington County Local Development  
 Wayne County Industrial Development Agency  
 West Brighton Community Local  
 Development  
 Westchester County Association, Inc.  
 Women's Enterprise Development Center Inc.  
 Wyoming County Industrial Development  
 Yates County Industrial Development  
 Yonkers Industrial Development

## Lenders of the Year

**NYBDC Lender  
 of the Year**  
 John Kraus of Mahopac  
 National Bank



**Empire State CDC:  
 The 504 Company  
 Lender of the Year**  
 Warren Krug of  
 Bank of America



Each of these bankers has worked extensively with NYBDC to promote access to capital to New York's small businesses.

## Community Partner of the Year

**Cortland County BDC-IDA**



In the Community Partner Program, NYBDC works with economic development entities and shares revenue on joint projects. During 2007, the number of Community Partners has grown from 60 to more than 90, 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.

To recognize the contribution of our Community Partners, NYBDC initiated a "Community Partner of the Year" award in 2007. The inaugural award went to Cortland County Business Development Corporation. Under the leadership of then-Executive Director Linda Dickerson Hartsock, Cortland County BDC-IDA is an effective and creative partner with NYBDC's loan programs and a tireless advocate of Cortland County and Central New York.



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