MICHIGAN STRATEGIC FUND BOARD MEETING
January 25, 2012
1:30 p.m.
Michigan Economic Development Corporation
Lake Michigan Room
300 N. Washington Square
Lansing, Michigan
517.241.2244

AGENDA

Call to Order

A. **Adoption of December 21, 2011** ***Minutes [Action Item]***
Public Comment ***[Please limit public comment to three (3) minutes]***
Communication ***[Information – Ellen Graham]***

B. **CDBG** – City of Williamston - Assignment and Assumption Agreement between the Michigan Brewing Company, Tavern 109, LLC; the Michigan Strategic Fund; and the City of Williamston - $190,000 ***[Action Item – Deborah Stuart]***

C. **SSBCI**
1. Cherry Growers, Inc. ***[Action Item - Elisabeth Alexandrian]***
2. MSDF and SSBCI Quarterly Update ***[Information Item – Christopher Cook]***

D. **21st Century Jobs Fund**
1. Picometrix, LLC/Advanced Photonix, Inc. – Subordination Request ***[Action Item – Antonio Luck]***
2. Delegation of Authority for Certain 21st Century Jobs Fund Programs ***[Action Item – Michael Psarouthakis]***
3. Translume, Inc. – Loan Restructure Request ***[Action Item – Stephen Haakenson]***
4. Michigan Venture Match Fund – Request for Approval of Public Comment Process ***[Action Item – Michael Psarouthakis]***
5. Real Estate Award – Develop Michigan, Inc. ***[Action Item – Eric Hanna]***
6. Operating Company Initiative Award – Grow Michigan, LLC. ***[Action Item – Eric Hanna]***
7. Confidentiality Requests ***[Action Item – Mike Pohnl]***
   a. Compendia Bioscience, Inc.
   b. Pixel Velocity, Inc.

E. **MSF Subcommittees Delegation**
1. MSF Entrepreneurial Subcommittee Resolution ***[Action Item – Mike Pohnl]***
2. MSF Incentive Subcommittee Resolution ***[Action Item – Mike Pohnl]***
3. MSF Investment Subcommittee Resolution ***[Action Item – Mike Pohnl]***

F. Tool & Die Recovery Zones – Program Update ***[Information Item – Karla Campbell]***

MICHIGAN STRATEGIC FUND BOARD MEETING
DECEMBER 21, 2011

PROPOSED MEETING MINUTES

A meeting of the Michigan Strategic Fund [MSF] Board was held on Wednesday, December 21, 2011 at the MEDC Building, 300 N. Washington Square, Lake Michigan Room, Lansing, Michigan.

MEMBERS PRESENT: Linda Ewing, Michael Finney, James Herbert, Steven Hilfinger, Andrew Lockwood [acting for and on behalf of Andy Dillon, designation attached], Mitch Mondry [via phone], Howard Morris [via phone], James Petcoff, Richard Rassel, Charles Rothstein [via phone]

MEMBERS ABSENT: Paul Hodges

CALL TO ORDER: Mr. Finney called the meeting to order at 1:35 p.m.

APPROVAL OF THE NOVEMBER 30, 2011 MEETING MINUTES: Mr. Finney asked if there were any questions from the Board. There being none, Mr. Lockwood motioned for approval of the November 30, 2011 MSF Board meeting minutes. Ms. Ewing seconded the motion. The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

PUBLIC COMMENT: Mr. Finney asked if there was any public comment. There was none.

COMMUNICATION: Ellen Graham advised the Board that the Agenda had been revised. The order of Agenda Item C – Renaissance Zones, Items 1-5, was changed to accommodate recusals. Richard Rassel had recused himself from Agenda Items C3, C4, and C5 – Renaissance Zones as well as Agenda Item H.3. 2012 Business Incubator RFP Awards. Steven Hilfinger would be recused for Agenda Item F – Graceland Fruit, Inc./Gateway Products, Inc. Agenda Item B – Private Activity Bonds – Green Box, had a revised Board Memo. Agenda Item G.5 – Everist Genomics had a revised Board Memo and Resolution, Agenda Item G.8 – Edibles Rex, Inc. had a revised Board Memo. Paul Hodges was unable to attend today's meeting. Mitch Mondry, Howard Morris and Charles Rothstein would be attending the meeting via phone.

PRIVATE ACTIVITY BONDS

Resolution 2011-170 – Green Box NA, LLC – Solid Waste - $3,200,000 – Romulus, Wayne County
Diane Cranmer, IDRB Specialist, provided the Board with information regarding this action item and introduced guest: Phillip Reinhart, Human Resources.
Mr. Reinhart provided the Board with an overview of the project. The Company indicates the project includes the acquisition of an approximately 30-35 acres of land, the construction of an approximately 212,500 square foot facility and the acquisition and installation of machinery and equipment. The processing facility will process organic, post-consumer waste from food and other waste streams and transform them into paper products, white or brown tissue products, No. 2 diesel fuel and saleable char [byproduct produced from waste materials]. The waste materials will be certified that they have been 100% re-processed into new products.
Recommendation: Staff recommends the adoption of an Inducement Resolution in the amount of $3,200,000 for this project.

Board Discussion: Mr. Finney asked if there were any questions from the Board. Mr. Herbert asked the current customer base. Mr. Reinhart advised the Company has engaged with a fast food company as well as a beverage company. Mr. Finney asked if there were any further questions from the Board. There being none, **Mr. Herbert motioned approval for Resolution 2011-170. Mr. Lockwood seconded the motion**. The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

RENAISSANCE ZONES

Resolution 2011-171 – Wayne County Renaissance Zone – 1208 Woodward, City of Detroit, Wayne County – Time Extension

Karla Campbell, Manager, State Tax Incentives, provided the Board with information regarding this action item and introduced guest: David Carroll, Authorized Representative

Mr. Carroll provided the Board with an overview of the project. Wayne County is requesting a modification to the Wayne County Renaissance Zone supported by the City of Detroit. The request is for a 9-year extension for parcel numbers 01004110-4 and 01004115-9. There are six years remaining on the parcel and the request is for 9 years, bringing the total to 15 years. The time extension would become effective on January 1, 2012 and end on December 31, 2026. All other property located in the Renaissance Zone, which began on January 1, 2000, will still expire on December 31, 2017 with regards to Renaissance Zone benefit. The Developer is considering constructing a mixed-use retail, parking deck and residential lofts structure,

Recommendation: Staff recommends approval of Wayne County's request, supported by the City of Detroit for a time extension on the properties contingent upon the following:

(i) Project shall commence by having prepared schematic and design development architectural plans substantially completed and submission made for City Site Plan approval for the project by December 21, 2012;

(ii) A development agreement is negotiated and signed between 1208 Woodward LLC, City of Detroit Downtown Development Authority, City of Detroit Building Authority and the Michigan Strategic Fund;

(iii) By December 21, 2013, have prepared construction drawings substantially completed and approved for permitting that will allow funding for construction to be put in place and the commencement of construction;

(iv) On or before December 31, 2013, the Company will purchase the parcel from the Detroit Downtown Development Authority, thus releasing the Detroit Downtown Development Authority of their liability and responsibilities under this Agreement upon the transfer of ownership;

(v) On or before December 31, 2013, if the Company purchases the parcel from the Detroit Building Authority, the Detroit Building Authority shall be released from their liability and responsibilities under this Agreement upon the transfer of ownership;

(vi) By December 31, 2015, substantial completion of construction, including issuance of temporary or permanent certificate of occupancy.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Herbert motioned approval for Resolution 2011-171. Mr. Rassel seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-172 – Border-to-Border Renaissance Zone – ChemQuest, Inc. – Village of Middleville, Barry County – Time Extension

Ms. Campbell provided the Board with background information regarding this action item and introduced guests: Dave Scharphorn, President.

Mr. Scharphorn provided the Board with an overview of the project. Due to a large growth rate in their equipment fabrication business, the need for a larger facility became necessary. In April of 2011, a new facility was purchased in order to expand the equipment fabricating segment of their business. Due to the conditions of the office and warehouse, extensive renovations are taking place. A chemical testing lab will be added within the facility and new equipment will be purchased in addition to the building renovations and site improvements. Ms. Campbell concluded the SubZone is set to expire this year. The time extension would become effective on January 1, 2012 and end on December 31, 2016.

Recommendation: Staff recommends the approval of the Barry County's request, supported by the Village of Middleville, for a time extension contingent upon:

(i) By December 2, 2012, ChemQuest, Inc. shall have commenced the project and started the building renovations and equipment purchase;

(ii) A development agreement will be entered into by ChemQuest, Inc., Scharphorn Properties, LLC and the Michigan Strategic Fund.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned approval for Resolution 2011-172. Mr. Petcoff seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

[Richard Rassel recused.]

Resolution 2011-173 – City of Detroit Renaissance Zone – James Group International, Inc. – City of Detroit, Wayne County – Time Extension Request

Ms. Campbell provided the Board with information regarding this action item and introduced guests: Lorron James, Vice President; Brian Holdwick, Detroit Economic Growth Corporation; Joan Brophy, Wayne County; Beth Gothelf, Butzel Long.

Ms. Gothelf provided the Board with an overview of the project. The City of Detroit is requesting a modification to the Southwest/Delray Subzone in the City of Detroit Renaissance Zone supported by Wayne County. The request is for a seven year time extension on parcel numbers 16000065.001, 16000002-3, and 16000062-4 although the City of Detroit and Wayne County supported 10 years. The Subzone is in its last year. The time extension would become effective on January 1, 2012 and end on December 31, 2018. All other property located in the Subzone, which began on January 1, 1997, will still expire on December 31, 2011 with regards to Renaissance Zone benefits.

Recommendation: Staff recommends approval of the City of Detroit's request and supported by Wayne County for a time extension. However, the MEDC recommends seven (7) time extensions, totaling seven years rather than the ten years requested by the City of Detroit and Wayne County, for property parcels 16000065.001, 16000002-3 and 16000062-4, contingent upon the following:

(i) By December 21, 2012, James Group International, Inc., shall have commenced the project and started the improvements to the property and capital investment as outlined in the City of Detroit's application in the City of Detroit Renaissance Zone;

(ii) A development agreement is negotiated and signed between James Group International, Inc., O-J Land Development Companies, Inc., and the Michigan Strategic Fund.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned approval for Resolution 2011-173. Mr. Petcoff seconded the motion.** The motion carried – 9 ayes; 0 nays; 1 recused; 1 absent.

Resolution 2011-174 – City of Detroit Renaissance Zone – Peerless Metal Powders and Abrasive, LLC, City of Detroit, Wayne County – Time Extension Request

Ms. Campbell provided the Board with information regarding this action item and introduced guests: David Carter, Minor Partner; Joan Brophy, Wayne County; Brian Holdwick, Detroit Economic Growth Corporation.

Mr. Carter provided the Board with an overview of the project. The City of Detroit is requesting a modification to the Southwest/Delray Subzone in the City of Detroit Renaissance Zone supported by Wayne County. The request is for a seven year time extension on three parcels. The Subzone is in its last year. The time extensions would become effective January 1, 2012 and end on December 31, 2018. All other property located in the Subzone, which began on January 1, 1997, will still expire on December 31, 2011 with regards to Renaissance Zone benefits. Mr. Holdwick and Ms. Brophy expressed support within the community.

Recommendation: Staff recommends approval of the City of Detroit's request and supported by Wayne County, for a time extension for the three properties, contingent upon:

(i) By December 21, 2012, Peerless Metal Powder & Abrasive, LLC shall have commenced the project and started the improvements to the property and capital investment, as outlined in the City of Detroit's application, in the City of Detroit Renaissance Zone;

(ii) A development agreement is negotiated and signed between Peerless Metal Powder & Abrasive, LLC, PTDC Properties, LLC and the Michigan Strategic Fund.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Herbert motioned approval for Resolution 2011-174. Mr. Lockwood Seconded the motion.** The motion carried – 9 ayes; 0 nays; 1 recused; 1 absent.

Resolution 2011-175 – City of Detroit Renaissance Zone – ArvinMeritor, Inc. – City of Detroit, Wayne County – Request for Transfer of Real Property
Ms. Campbell provided background information regarding this action item.
Ms. Campbell provided the Board with an overview of the project. In the Agreement entered into in December 2009, there is a provision stating that the Michigan Strategic Fund must approve a transfer or sale of property. Meritor, Inc. has made a request to sell the real property to West Fort Street Properties LLC. The parties have provided a copy of the purchase agreement and it is on file with the MEDC. In the purchase agreement, there is a clause stating that the sale of the real property must be approved by the MSF before the sale is finalized.
Recommendation: Staff recommends approval of the transfer of the real property from Meritor, Inc. to West Fort Street Properties LLC effective immediately. All other provisions of the previous resolution and agreement remain in effect.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned for approval for Resolution 2011-175. Mr. Petcoff seconded the motion.** The motion carried – 9 ayes; 0 nays; 1 recused; 1 absent.

[Richard Rassel returns.]

TOOL & DIE RECOVERY ZONES

Resolution 2011- 176 – Midwest Machining, Inc. [dba SelfLube] – Coopersville Tooling Coalition – City of Coopersville, Ottawa County – Extend Duration of Existing Zone
Karla Campbell, Manager, State Tax Incentives, provided the Board with information regarding this action item and introduced guest: Phil Allor, Owner/President.
Mr. Allor provided the Board with an overview of the project. The current Tool & Die Recovery Zone designation has enabled SelfLube to commit to additional investment and job growth. Six million dollars in capital investment is planned with an addition of 25 jobs. The MEDC received a new resolution passed by the City of Coopersville supporting an MSF approved extension for an additional five years, bringing the total to 15 years with a new expiration date of 2019 rather than 2014.
Recommendation: Staff recommends the five year extension of the Recovery Zone duration on real property.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Petcoff motioned approval for Resolution 201-176. Mr. Lockwood seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-177 – Mistequay Group Ltd. – City of Standish, Arenac County – Extend Duration of Existing Zone
Ms. Campbell provided the Board with information regarding this action item and introduced guests: Laura Paas Littleton, Sales Manager
Ms. Littleton provided the Board with an overview of the project. Mistequay offers a variety of complex, diversified manufacturing expertise in the tooling industry. The Tool & Die Recovery Zone designation has enabled Mistequay to commit to additional investment and job growth. Short-term, approximately $400,000 of new equipment is planned with the addition of five jobs. The City of Standish has passed a new resolution supporting an MSF approved extension for an additional three years, bringing the total to 8 years with a new expiration date of 2017, rather than 2014.
Recommendation: Staff recommends a three year extension of the Recovery Zone duration on real property.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Herbert motioned approval for Resolution 2011-177. Mr. Lockwood seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-178 – Philips Machining Company, Inc. – Coopersville Tooling Coalition – City of Coopersville, Ottawa County – Extend Duration of Existing Zone
Ms. Campbell provided the Board with information regarding this action item and introduced guests: Jim Pleune, President.
Mr. Pleune provided the Board with an overview of the project. The Tool & Die Recovery Zone designation has enabled the Company to commit to additional investment totaling $740,000. The Company has an average wage of $21.00 per hour with full medical benefits. Their future plans include employing additional machinists. The MEDC received a new resolution passed by the City of Coopersville supporting an MSF approved extension for an additional five years, bringing the total to 15 years with a new expiration date of 2019 rather than 2014.
Recommendation: Staff recommends a five-year extension of the Recovery Zone duration on real property provided that by May 31, 2015, if Philips Machining Company, Inc. has not renewed their lease with the property owner, the Recovery Zone benefit shall be revoked.

Board Discussion: Mr. Finney asked if there were any questions from the Board. Mr. Rassel asked how the Company hired their workforce. Mr. Pleune explained the Company posted ads in the newspaper as well as on Craigslist. Mr. Finney interjected that the Company may wish to look at the www.MItalent.org website which assists companies to find experienced workers. There being no further questions, **Mr. Rassel motioned approval for Resolution 2011-178. Mr. Lockwood seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-179 – TransNav, Inc. – Third Coast Tooling Alliance, LLC, - City of New Baltimore, Macomb county – Extend Duration of Existing Zone
Ms. Campbell provided the Board with information regarding this action item and introduced guests: Jeff Hartwig.
Ms. Campbell provided the Board with an overview of the project. The Company is a global plastics organization that designs, engineers, manufactures and assembles plastic injection molds, part and assemblies. TransNav is comprised of various entities and have exposure to both customers and suppliers in North America, South America, Europe, Asia and Australia. The City of New Baltimore has passed a new resolution supporting an MSF approved extension for five years.
Recommendation: Staff recommends a five year extension of the Recovery Zone duration on real property.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned approval for Resolution 2011-179. Ms. Ewing seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011- 180 – Pi Optima, Inc. – Tool Makers Alliance – City of Walker, Kent County – Transfer of Ownership
Ms. Campbell provided the Board with information regarding this action item and introduced guest: Matt Lepard, President.
Mr. Lepard provided the Board with an overview of the project. Pi Optima, Inc. was founded in 2007 and has grown through the acquisition of three companies. The most recent acquisition occurred in January 2011 which involved the purchasing of Die Tool Engineering [DTE]. The Tool and Die Recovery Zone designation has enabled Pi Optima to commit to additional investment and job growth. The City of Walker has passed a resolution supporting an MSF approved transfer of the Recovery Zone benefit for the remaining time period designated to the former Die Tool Engineering Company with an expiration date of December 31, 2021. Pi Optima meets all legislative requirements to be considered for this transfer of the Recovery Zone benefit.
Recommendation: Staff recommends the transfer of the Recovery Zone benefits designated for DTE to Pi Optima, Inc. contingent upon:

(i) By December 31, 2014, if Pi Optima has not renewed their lease with the property owner, the Recovery Zone benefit shall be revoked. The Recovery Zone benefit does not automatically transfer to another entity.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned approval for Resolution 2011-180. Mr. Petcoff seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-181 – CNC Precision Machining, LLC – Precision Tooling Coalition – Alpine Township, Kent County – Transfer of Recovery Zone Benefits
Ms. Campbell provided the Board with information regarding this action item and introduced guest: Chad Nyboer, Controller.
Mr. Nyboer provided the Board with an overview of the project. CNC Precision Machining, LLC, was formed in January 2011 and acquired all assets from CNC Precision Machining, Inc. The Company offers in-house design support, prototype, production and assembly of custom parts and systems manufactured for medical, automotive, military, aerospace, and electronics. CNC Precision Machining, Inc., a member of the Precision Tooling coalition, was designated a Recovery Zone by the Michigan Strategic Fund on December 16, 2004, effective January 1, 2005. CNC Precision Machining, LLC obtained a resolution from Alpine Township approving a transfer of the Recovery Zone benefit for the designation as approved by the MSF in 2004 for 10 years and a five year extension in 2006, totaling a 15-year designation with an expiration date of December 31, 2019. Alpine Township has passed a resolution in support of an MSF Approved transfer of the Recovery Zone benefit for the remaining time period designated to CNC Precision Machining, LLC., with an expiration date of December 31, 2019.
Recommendation: Staff recommends the transfer of the Recovery Zone on real property previously designated for CNC Precision Machining, Inc. to CNC Precision Machining LLC.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Herbert motioned approval for Resolution 2011-181. Mr. Hilfinger seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

NEXT MICHIGAN ENERGY DEVELOPMENT CORPORATION
Resolution 2011-182 – DeWitt Charter Township – City of Lansing Next Michigan Development Corporation – City of Lansing and DeWitt Charter Township
Karla Campbell, Manager, State Tax Incentives, provided the Board with information regarding this action item and introducing guests: Karl Dorshimer, Lansing Economic Development Corporation; Bob Trezise, Lansing Economic Area Partnership; Rod Taylor, DeWitt Charter Township Supervisor; Rick Galardi, DeWitt Charter Township; Bob Selig, Capital Regional International Airport; Ken Szymuskiak, City of Lansing.
Mr. Trezise explained to the Board that the City of Lansing, DeWitt Charter Township and the Capital Regional Airport Authority are focused on creating a leading facility and hub for multi-modal goods and international trade. The communities and stakeholders believe that the airport location has the ability to become a freight logistics leader in Michigan and the midwest. These entities believe that the Next Michigan Development Corporation [NMDC] designation will provide the tools to attract the appropriate tenants to build a comprehensive industrial park to drive commerce throughout Michigan. Mr. Gilardi advised the Board that a P.A. 425 Agreement has been signed between DeWitt Charter Township and the City of Lansing which will allow for regional cooperation.
Recommendation: Staff recommends to the MSF the designation of the DeWitt–Lansing NMDC with immediate effect, i.e., Wednesday, December 21, 2011.

Board Discussion: Mr. Finney asked if there were any questions from the Board. Mr. Hilfinger asked what the runway capacity is. Mr. Selig responded it is 8500 feet which enables a 747 aircraft to land. There being no further questions, **Mr. Herbert motioned approval for Resolution 2011-182. Mr. Rassel seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

*[Steve Hilfinger is recused.]***SSBCI**

Resolution 2011-183 – Graceland Fruit, Inc./Gateway Products, Inc.
Christopher Cook Capital Services Associate, provided the Board with information regarding this action item and introduced guests: Al DeVore, Graceland; Meagan Hardcastle, Pat O'Keefe & Associates; Pat O'Keefe, O'Keefe & Associates.
Mr. DeVore provided the Board with an overview of the project. Graceland Fruit, Inc. ["Company"] is a Michigan corporation engaged primarily in the manufacture and sale of various infused dried, refrigerated, and frozen fruit and vegetable ingredients and juice concentrate. The Company markets its products nationally and internationally. Citizens Bank has proposed several new credit facilities for the borrowers. Graceland currently has its banking relationship with Huntington National Bank. The financing being proposed by Citizens Bank would take out approximately $24,000,000 in debt currently being held by Huntington National Bank. The remainder of the debt would be converted to preferred stock, redeemable by Huntington at the end of 3 years. At that time, the preferred stock could be converted to 20% of common equity share. Also, as part of preparation for closing the loan facility, there are numerous underwriting documents which contain financial and other proprietary information that are shared with staff for which the Company is requesting confidentiality.
Recommendation: Staff recommends granting designated information by the Company as confidential; approval of the MBGF-CSP proposal subject to available funding under the SSBCI-MBGF-CSP at the time of closing and completion of due diligence for which the results are satisfactory to the MEDC and MSF Fund Manager finalization of a MBGF-CSP Cash Collateral Deposit Agreement.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Petcoff motioned approval for Resolution 2011-183. Mr. Lockwood seconded the motion**. The motion carried – 9 ayes; 0 nays; 1 recused; 1 absent.

[Mr. Hilfinger returns.]

21ST CENTURY JOBS FUND

Venture Match Program
Michael Psarouthakis, Vice President, Business Acceleration, provided the Board with information regarding this item.
The lack of venture capital investment in Michigan is evident as most venture capital firms that consider Michigan opportunities often require companies to have fairly significant revenues prior to seriously considering an investment. Many Michigan based venture capital funds do not have sufficient capital or the risk profile to make earlier stage investment that typically have a longer timeframe to exit, and are often difficult to syndicate with other venture investments in Michigan based technology companies. Under the Venture Match Program, the Michigan Strategic Fund would provide a match of up to $500,000 for eligible investments in Michigan based technology companies. The proposed program hopes to tackle 4 issues in Michigan regarding early stage venture investing: 1) attract venture funds, within and outside of Michigan, to consider investment in early stage and pre-revenue Michigan based technology companies; 2) mitigate some risk for venture funds investments at this stage by participating with MSF Funds in early rounds, allowing the venture fund to retain "dry powder" for future investment rounds; 3) give Michigan based companies a program that they can immediately point to as a syndication possibility when they approach venture firms; and 4) create an investment program that is primarily market driven. Staff is preparing materials for the January 2012 for the Board consideration.

Credit Suisse Quarterly Report
Michael Flanagan, Capitol Service Associate, provided the Board with background information on this item and introduced guests from Credit Suisse: Mike Kell, Manager, Michigan Office; Sean O'Donnell, In-State Investment Specialist; Kelly Williams, Managing Director, Group Head.

Mr. O'Donnell provided the Board with an overview of the investment activities for the past quarter. As of June 30, 2011 the underlying funds have drawn approximately 53% of their capital commitments. Overall, $311.8 million of equity has been invested into these 23 portfolio companies by all syndicate partners. Mr. Finney asked if there were any questions from the Board. Ms. Ewing questioned the confidentiality of the written information presented to the Board. Mr. O'Donnell responded that it was inappropriate to comment on certain aspects of the monies invested by the various fund managers. Mr. Finney indicated that the written material presented to the Board at the public meeting was not confidential and requested that future updates disseminated at public meetings of the MSF not include information marked or intended to be identified as confidential. Mr. O'Donnell concurred.

Resolution 2011-184 – Approval of the Michigan Business Development Program and Guidelines and Delegations of Authority for Program

Resolution 2011-185 – Approval of the Michigan Community Revitalization Program and its Guidelines and Delegations of Authority for the Program

Resolution 2011-186 – Allocation of Funds from the 21st Century Jobs Trust Fund to the Michigan Strategic Fund for the Michigan Business Development Program and the Michigan Community Revitalization Program

Peter Anastor, Policy Director, provided the Board with information regarding this action item. Mr. Anastor explained to the Board that the Michigan Business Development Program [MBD] and the Michigan Community Revitalization Program [MCR] are new economic development incentive programs that will replace a number of tax credit incentives that are being eliminated due to the tax restructuring and creation of the new Corporate Income Tax. These new economic development tools are funded with a $100 million appropriation included in the fiscal year 2012 budget bill for the Michigan Strategic Fund.

<u>Recommendation</u>: Staff recommends the establishment of the MBD Program and the MCR Program and approval of the guidelines for each program under the new legislation, and revocation of the establishment and approval under the general powers of the MSF. Further recommendation is the MSF Board request that the Michigan Department of Treasury transfer $100 million from the Michigan 21st Century Jobs Trust Fund to the MSF for the MBD Program and the MCR Program. Once funds have been transferred, they will be allocated to the MBD Program and MCR Program, with at least $20 million being allocated for the MCR Program.

<u>Board Discussion</u>: Mr. Finney asked if there were any questions from the Board. There being none, Mr. Finney advised the Board they would be voting on three separate resolutions, the first being Resolution 2011-184 – Approval of the Michigan Business Development Program and Guidelines and Delegation of Authority for Program. **Mr. Herbert motioned approval for Resolution 2011-184. Mr. Lockwood seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Mr. Finney asked if there were any questions with regard to the Approval of the Michigan Community Revitalization Program and its Guidelines and Delegations of Authority for the Program. There being none, **Mr. Herbert motioned approval for Resolution 2011-185. Ms. Ewing seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Mr. Finney asked if there were any questions with regard to the Allocation of Funds from the 21st Century Jobs Trust Fund to the Michigan Strategic Fund for the Michigan Business Development Program and the Michigan Community Revitalization Program. There being none, **Mr. Petcoff motioned approval for Resolution 2011-186. Mr. Hilfinger seconded the motion**. The motion carried**-** 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-187 – 2012 Business Incubator RFP Awards

Martin Dober, Senior Vice President, Entrepreneurship & Innovation, and Paula Sorrels, Managing Director, Entrepreneurial Services, provided the Board with information regarding this action item.

Martin Dober provided the Board with an overview of this award. The MEDC received 23 proposals totaling $25 million in response to the RFP. The Joint Evaluation Committee [JEC] met and recorded a consensus score using the scoring and evaluation criteria approved by the MSF. Twelve of the proposals were

recommended for funding, including seven proposals from the legislatively mandated governmental units and 5 proposals outside those areas.
Recommendation: Staff recommends the MSF approve funding of the proposals identified in Exhibit B of their Board Memo presented December 21, 2011.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned approval for Resolution 2011-187. Mr. Hilfinger seconded the motion.** The motion carried - 10 ayes; 0 nays; 0 recused; 1 absent.

Resolution 2011-188 – Everist Genomics Restructure
Zakaria Shaikh, Portfolio Manager, provided the Board with information regarding this action item.
Everist Genomics is requesting that the MSF approve the following for restructuring its Promissory Note: 1) the grace period of the Note be extended from December 12, 2010 to June 30, 2013; and 2) the 36-month Principal and Interest repayment period be reset to commence July 1, 2013, from January 1, 2010. In return, Everist agrees to 1) the interest rate on the Note be increased by 200 bps, from 8.25% per annum to 10.25% per annum effective 1/1/2012; 2) unpaid interest accrued under the existing Note from January 1, 2011 through December 31, 2011 at 8.25% be repaid in 18 equal monthly installments; and 3) issuance of warrants to the MSF for 47,100 shares of Series C stock with a strike price of $4.00 per share.
Recommendation: Staff recommends approval of the restructure request by Everist Genomics.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Herbert motioned approval for Resolution 2011-188. Mr. Petcoff seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

[Mr. Mondry disconnects from meeting.]

Resolution 2011-189 – Approval of the Develop Michigan – Capital Conduit Program under the MSDF ["CCP"], The Real Estate Initiative under the CCP ["REI"], Guidelines for the REI, and Delegations of Authority for the REI
Resolution 2011-190 – Approval of the Operating Company Initiative Under the Develop Michigan – Capital Conduit Program ["OCI"], Guidelines for the OCI, and Delegations of Authority for the OCI
Resolution 2011-191 – Approval of Funding for Develop Michigan – Capital Conduit Program under the MSDF
Eric Hanna, Capital Services Associate, provided the Board with information on this action item and introduced guests: Belden Daniels, Economic Innovation; Steve Klein – First Infrastructure.
Mr. Hanna outlined the program and its components for the Board. The program will be used to provide increased capacity to skilled providers of capital and services. It will act as an enhancement by assuming credit risk and/or accepting reduced earnings. Either or both enhancements will result in the lending or investing of private sector capital to the applicant that the applicant will then use in pursuit of the activities for which it was organized. All activities under the OCI or REI are subject to the guidelines.
Recommendation: Staff recommends the approval of the Real Estate Initiative, Operating Company Initiative, adoption of guidelines for both, delegation of authority to Fund Manager to approve the process, funding of the program as well as establishing the Develop Michigan program under the Michigan Supplier Diversification Program.

Board Discussion: Mr. Finney asked if there were any questions from the Board regarding the Approval of the Develop Michigan – Capital Conduit Program Under the MSDF, The Real Estate Initiative under the CCP, Guidelines for the REI, and Delegations of Authority for the REI. There being none, **Mr. Herbert motioned approval for Resolution 2011-189. Mr. Lockwood seconded the motion**. The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Mr. Finney asked if there were any questions regarding the Approval of the Operating Company Initiative. There being none, **Mr. Petcoff motioned approval for Resolution 2011-190. Mr. Lockwood seconded the motion.** The motion carried – 10 ayes; 0 nays; 0 recused; 1 absent.

Mr. Finney asked if there were any questions regarding the approval of funding for the Develop Michigan program. There being none, **Mr. Lockwood motioned approval for Resolution 2011-191. Mr. Rassel seconded the motion**. The motion carried – 9 ayes; 0 nays; 0 recused; 2 absent.

Resolution 2011-192 – Modification of 2011 Permanent Fund Availability for the Michigan Supplier Diversification Fund

Mr. Hanna provided the Board with information regarding this action item.

Mr. Hanna explained to the Board that the program has now received and committed the majority of its initial round of SSBCI funds. In order to continue to support those transactions that are unable to secure SSBCI funding and where there is an appropriately compelling public interest, staff is requesting that the funding authorization approved by the MSF on May 25, 2011 be revised to effectuate a full transfer to the MSDF of $5,000,000 from the Permanent Fund.

Recommendation: Staff recommends that the $5,000,000 authorized under resolution 2011-076 be formally transferred from the Permanent Fund to the MSDF program for use in transactions which fall outside of SSBCI federal requirements but otherwise comply with the MSDF program.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Lockwood motioned approval for Resolution 2011-192. Mr. Petcoff seconded the motion**. The motion carried – 9 ayes; 0 nays; 0 recused; 2 absent.

Resolution 2011- 193 – Edibles Rex, Inc. – MSDF Extension

Christopher Cook, Capital Services Associate, provided the Board with information regarding this action item.

Mr. Cook advised that the MSF Board had approved a resolution in July of 2011 which provided support in the amount of $931,000 to be provided to Edibles Rex, Inc. The resolution required a closing date within 90 days. However, the bank was unable to close its loan prior to the expiration of this resolution, including the potential 30 days extension that could have been approved by the MSF Fund Manager.

Recommendation: Staff recommends the extension of the commitment under the Michigan Collateral Support Program proposal and finalization of a Deposit Agreement, subject to available funding at the time of closing and completion of due diligence, the results of which are satisfactory to the MEDC and Fund Manager as well as the contingency that closing will be within 90 days of the date of approval by the MSF Board, which may be extended up to an additional 30 days at the discretion of the MSF Fund Manager.

Board Discussion: Mr. Finney asked if there were any questions from the Board. There being none, **Mr. Petcoff motioned approval for Resolution 2011-193. Mr. Lockwood seconded the motion.** The motion carried – 10 ayes; 0 nay; 0 recused; 2 absent.

Meeting adjourned at 3:50 p.m.

PURE MICHIGAN

MEMORANDUM

Date: January 25, 2012

To: Michigan Strategic Fund (MSF) Board

From: Deborah Stuart, CDBG Manager

Subject: Community Development Block Grant
City of Williamston
Downtown Signature Building Acquisition and Façade Improvement Project
Business Assignment and Assumption

PROJECT DESCRIPTION

The City of Williamston was awarded a $190,000 Community Development Block Grant (CDBG) at the September 30, 2009 MSF Board meeting to fund the acquisition and façade improvement of an 1874 building located at 109-115 E. Grand River, Williamston in Ingham County. The City had selected at that time and has been working with a private developer that successfully redeveloped the 11,000 square foot site into a mixed-used retail/residential/office building.

The original proposal included the redevelopment of the first floor to house the Michigan Brewing Company, which planned initially to provide beer and wine tasting with longer term plans for a kitchen. Since the project was approved, the Michigan Brewing Company is no longer a partner in the project. The City has requested that the business participating in the project be assigned to Tavern 109, LLC. Tavern 109, LLC is owned by Bonnie Warmels and Steve Eyke, who have both been significant elements in the redevelopment project and proposed restaurant from the beginning. Tavern 109 will be a restaurant with food and beverage services. The City is confident the new partnership will meet the requirements of the grant and will be a success in the community.

PROJECT EVALUATION OF NEW PROPOSAL

The project was evaluated utilizing the CDBG guidelines. It has been determined that the proposed project meets the following minimum standards to qualify as an eligible project under the CDBG program:

Job Creation

The project is expected to result in the creation of 9.5 new full-time equivalent positions over the next two years.

CDBG Cost per Job

The CDBG cost per job is $20,000.

Job Wage Base/Fringe Package

The lowest starting hourly wage will be $3.50 per hour plus tips. The average hourly wage for the new employees is expected to be $7.40 per hour plus tips. There will be no fringe benefits provided for these jobs.

Private and Public Sector Investment

The local and private contribution is $147,000 which is approximately 44% of the total project cost. The City of Williamston has provided $35,000 from their general fund for acquisition and administration related costs, the Downtown Development Authority is contributing $12,000 through their façade program, and the remaining match of $100,000 is being invested by the developer.

Meets National Objective

The project developer has agreed that at least five of the jobs created will be held by persons of low and moderate income. The project meets the national objective by providing benefit to at least 51% low and moderate income persons.

Additional State and Local Assistance

NA

Project Budget

See Attachment A.

ADDITIONAL INFORMATION

Legislative Information

Senator: Gretchen Whitmer – District 23
Representative: Barb Byrum– District 67

Local Contact

Timothy T. Allard, City Manager
City of Williamston
161 E. Grand River Avenue
Williamston, MI 48895
(517) 655-2774

RECOMMENDATION

After reviewing the proposal, staff has concluded that the project meets the minimum program requirements to be eligible under the CDBG program. Staff recommends that an assignment and assumption agreement between the Michigan Brewing Company, Tavern 109, LLC; the Michigan Strategic Fund; and the City of Williamston be executed for the Community Development Block Grant in the amount of $190,000.

Attachment A

PROJECT BUDGET

MICHIGAN COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM
DOWNTOWN SIGNATURE BUILDING AND FAÇADE PROJECT

MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

1. Applicant:	City of Williamston		2. Project Title:	Signature Building Acquisition and Facade Improvement Project		
3. Project Cost Elements	4. Project Funding Sources (Identify all other funding sources)					
Activities	CDBG	City	DDA	Private		TOTAL
Building Acquisition	$90,000	$30,000	$0	$0		$120,000
Administration	$0	$5,000	$0	$0		$5,000
Façade Improvements	$100,000	$0	$12,000	$100,000		$212,000
TOTAL	$190,000	$35,000	$12,000	$100,000		$337,000

MICHIGAN STRATEGIC FUND

RESOLUTION
2012-

CITY OF WILLIAMSTON

WHEREAS, Executive Order 1999-1, issued pursuant to Article V of the Michigan Constitution of 1963 and the laws of the State of Michigan, consolidated the State's economic development functions and programs and their accompanying powers in the Michigan Strategic Fund ("MSF");

WHEREAS, Executive Order 1999-1 transferred from the Michigan Jobs Commission to the MSF all authority, powers, duties, functions, grants, and responsibilities, including the functions of budgeting, procurement, personnel, and management related functions, of the Community Development Block Grant ("CDBG") program;

WHEREAS, in Resolution 2009-139 the MSF Board approved the City of Williamston, Ingham County (the "Community") to submit an application requesting $190,000 to fund the acquisition and façade improvement of an 1874 building in the downtown district of the Community (the "Project");

WHEREAS, the Community selected and has been working with a private developer that successfully redeveloped the 11,000 square foot site into a mixed-use retail/residential/office building; however, the Michigan Brewing Company signed the Grant Agreement along with the Community and is no longer able to meet the requirements of the Grant Agreement;

WHEREAS, the Community has identified Tavern 109, LLC which will be able to assume and meet the Grant Agreement requirements. Tavern 109, LLC agrees to assume all of the benefits, commitments and responsibilities previously agreed to by the Michigan Brewing Company, included in the original Grant Areement; and

WHEREAS, staff recommends that an assignment and assumption agreement between the Michigan Brewing Company, Tavern 109, LLC; the Michigan Strategic Fund; and the City of Williamston be executed for the Community Development Block Grant Agreement in the amount of $190,000.

NOW, THEREFORE, BE IT RESOLVED, that the MSF Board authorizes a revision to the project approved in Resolution 2009-139 and the execution of an assignment and assumption agreement between the Michigan Brewing Company, Tavern 109, LLC; the Michigan Strategic Fund; and the City of Williamston for the Community Development Block Grant Agreement in the amount of $190,000;

BE IT FURTHER RESOLVED, that the MSF Board authorizes the Fund Manager or MSF President to take any action necessary to effectuate the terms of this Resolution; and

BE IT FURTHER RESOLVED, that, except as provided in this Resolution, the terms of Resolution 2009-139 shall remain unchanged and in full effect.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MEMORANDUM

Date: January 25, 2012

To: Michigan Strategic Fund Board Members

From: Liz Alexandrian, Capital Services Associate

Subject: MSF Loan Participation Proposal
Cherry Growers, Inc. (and or related borrowers/guarantors)

MSF LOAN PARTICIPATION PROGRAMS AND THEIR GUIDELINES

On May 20, 2009, the MSF Board approved the Michigan Loan Participation Program ("MLPP") guidelines, and on June 24, 2009, the MSF Board approved the Loan Participation and Servicing Agreement and Supplemental Agreement ("MLPP Participation Agreements"), each as amended, for use within the MLPP. The MLPP was created under, and is funded by, the state's 21CJF initiative. Under the MLPP guidelines, the MSF Board must approve requests for loan participation over $500,000, and requests for loan participation of $500,000 or less may be approved by the MSF Chairperson.

On May 25, 2011, the MSF Board approved the Michigan Business Growth Fund – Loan Participation Program ("MBGF-LPP") and its guidelines, and the MBGF-LPP Loan Participation and Servicing Agreement ("MBGF-LPP Participation Agreement"), for use within the MBGF. The MBGF-LPP was created under, and is expected to be funded by, the federal government's State Small Business Credit Initiative ("SSBCI"). Under the MBGF-LPP guidelines, the MSF Board must approve MBGF-LPP requests over $2.5 million, and requests for loan participation of $2.5 million or less may be approved by any two of the following: MSF Chairperson, or the MSF Fund Manager, or the MSF State Treasurer Director.

The primary intended objective of the MLPP and the MBGF-LPP is to enhance the cash flow position of commercial borrowers to promote advancement of credit facilities from lenders.

BACKGROUND

On August 24, 2011, the Michigan Strategic Fund Board approved MSF participation with The Huntington National Bank ("Huntington") on 4 separate loan requests to Cherry Growers, Inc. ("CGI" or "Company"). 2 of the 4 requests have closed, and were funded using SSBCI dollars. The remaining 2 loans were approved to be funded with state dollars, as they are in conjunction with SBA 504 participation on the remaining portion. Huntington just recently received SBA approval for these 2 loans; however, the SBA still needs to approve the Due Care Plan. The Due Care Plan has already been approved by the MDEQ. Huntington expects to have SBA approval of the Due Care Plan yet this month, and expects to close both loans in February

The original approval document states that the commitment will remain valid for 90 days with approval by the MSF Fund Manager to extend the commitment an additional 30 days. The additional 30-day timeframe was previously approved by the MSF Fund Manager expired on January 15, 2012.

REQUEST

MEDC Staff requests approval of a commitment extension for an additional 90 days from the date of this memo for the following facilities.

FACILITY 3 – CHERRY GROWERS, INC.

Borrower:	Cherry Growers, Inc. (and/or a related borrower(s))	
Lender:	Huntington National Bank	
Loan Amount:	Up to $1,000,000	
MSF Share:	Up to $ 499,000 (state funding under MLPP or federal funding under SSBCI-MBGF-LPP)	
Loan Type:	10-year CREM with 20-year amortization (lender is structuring with 3 months of interest only, then P&I payments).	
MSF Grace:	None	
Fees:	Tier II:	2.65% at Closing 1.0% annually thereafter based on the MSF Share Balance

FACILITY 4 – CHERRY GROWERS, INC.

Borrower:	Cherry Growers, Inc. (and/or a related borrower(s))	
Lender:	Huntington National Bank	
Loan Amount:	Up to $550,000	
MSF Share:	Up to $274,450 (state funding under MLPP or federal funding under SSBCI-MBGF-LPP)	
Loan Type:	7-year Term loan with 10-year amortization (lender is structuring with 3 months of interest only payments, then P&I).	
MSF Grace:	None	
Fees:	Tier II:	2.125% at Closing 1.0% annually thereafter based on the MSF Share Balance

RECOMMENDATION

MEDC Staff recommends finalization of the above referenced loan participation arrangements, subject to available funding under the MBGF-LPP and MLPP at the time of closing, completion of due diligence, the results of which are satisfactory to the MEDC (collectively, "Due Diligence"), and finalization of the respective loan participation agreements. These commitments will remain valid for 90 days, with approval for MSF Fund Manager to extend the commitment an additional 30 days.

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

APPROVAL OF LOAN PARTICIPATION AGREEMENTS FOR CHERRY GROWERS, INC. (UNDER FEDERALLY FUNDED MBGF-LPP AND STATE FUNDED MLPP)

WHEREAS, under the State Small Business Credit Initiative Act of 2010 (title III of the Small Business Jobs Act of 2010, Public Law 111-240, 124 Stat. 2568, 2582 (the "SSBCI"), the United States Congress appropriated funds to the United States Department of Treasury ("US Treasury") to be allocated and disbursed to states that have applied for and created programs in accordance with the SSBCI to increase the amount of capital made available by private lenders to small businesses ("SSBCI Programs");

WHEREAS, At its May 25, 2011 meeting, the MSF Board approved: (i) the creation of the Michigan Business Growth Fund (the "MBGF"), an SSBCI Program created by the MSF to disburse SSBCI funds in accordance with the SSBCI, and (ii) as part of the MBGF, the creation of a loan participation designed to facilitate financing of projects for commercial borrowers (the "MBGF-LPP"), and (iii) the guidelines for the MBGF-LPP ("MBGF-LPP Guidelines") and MBGF-LPP Loan Participation and Servicing Agreement ("MBGF-LPP Agreement"), each to be utilized for the operation of the MBGF-LPP, and (iv) the MSF Fund Manager or Chairperson to negotiate and sign the terms and conditions of the MBGF-LPP Agreement as authorized by the MSF Board;

WHEREAS, On June 21, 2011, the US Department of Treasury approved the State of Michigan, through the MSF, to receive and disburse SSBCI funds within the SSBCI Programs created by the MSF;

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law by Governor Jennifer M. Granholm;

WHEREAS, pursuant to MCL.125.2088d(1) the MSF shall create and operate a loan enhancement program;

WHEREAS, on May 20, 2009, the MSF approved the creation of the Michigan Supplier Diversification Fund ("MSDF") as a loan enhancement program;

WHEREAS, on May 20, 2009, the MSF approved the: (i) creation and operation of the Michigan Loan Participation Program ("MLPP") under the MSDF, and (ii) adopted the MLPP guidelines, as later amended ("MLPP Guidelines");

WHEREAS, on June 24, 2009, the MSF approved the MSF Chairperson to negotiate the final terms and conditions of the Loan Participation and Servicing Agreement and Supplemental Agreement, as later amended, to be used for the MLPP ("MLPP Agreements") and sign the final MLPP Agreements on the MSF's behalf, as authorized by the MSF Board;

WHEREAS, the MLPP Guidelines require that requests for loan participation over $500,000 must be approved by the MSF Board and MBGF-LPP Guidelines require that loan participation requests over $2.5 million must be approved by the MSF Board;

WHEREAS, the Michigan Economic Development Corporation ("MEDC") provides administrative services for the Michigan Strategic Fund ("MSF") for 21st Century Jobs Fund programs, including the MLPP; as well for SSBCI Programs, including the MBGF-LPP.

WHEREAS, Huntington National Bank ("Bank") provided loan commitments to Cherry Growers, Inc. and/or related entities ("Proposed Borrower") of: (i) up to $2,740,000 to finance commercial real estate ("Project #1"), (ii) up to $3,210,000 to finance equipment ("Project #2), (iii) up to $1,000,000 to finance additional commercial real estate ("Project #3) and (iv) up to $550,000 to finance other equipment ("Project #4);

WHEREAS, at its August 24, 2011 meeting, the MSF approved (i) loan participation from the MSF under the federally funded MBGF-LPP for Project #1 and Project #2, in the amount not to exceed the lesser of: (a) $1,367,260 and $1,601,790 respectively, or (b) up to 49.9% of the total amount of each respective Bank loan for Project #1 and Project #2 ("Federally Funded LPP For Projects #1 and #2; (ii) loan participation from the MSF for Project #3 and Project #4, in the amount not to exceed the lesser of: (a) $499,000 and $274,450 respectively, or (b) up to 49.9% of the total amount of each respective Bank loan for Project #3 and Project #4, under the state funded MLPP ("State Funded LPP For Projects #3 and #4") or, if available to the satisfaction of the MSF, under the federally funded MBGF-LPP ("Federally Funded LPP For Projects #3 and #4"); and (iii) execution of the MBGF-LPP Agreements and as applicable, the MLPP Agreements within 90 days of the date of approval ("Time Period"), unless the Time Period was extended for an additional 30 days by the MSF Fund Manager;

WHEREAS, the Federally Funded LPP For Projects #1 and #2 have been completed by the Bank and the MSF;

WHEREAS, based on the time required to complete all the necessary due diligence, the Bank was unable to close on Projects #3 and #4 within the Time Period;

WHEREAS, the MEDC recommends that the MSF extend its commitment for the State Funded LPP For Projects #3 and #4 and the Federally Funded LPP For Projects #3 and #4 for an additional 90 days from the date of this Resolution ("Revised Time Period"), or this Resolution shall have no effect; provided however, that at the sole discretion of the MSF Fund Manager, the Revised Time Period may be extended for up to an additional 30 days.

NOW, THEREFORE, BE IT RESOLVED, the MSF approves the Revised Time Period for the State Funded LPP For Projects #3 and #4 and authorizes execution of the MBGF-LPP Agreements and, as applicable, MLPP Agreements, within 90 days of the date of this Resolution or the loan participation support approval under this Resolution shall have no effect; provided however, at the sole discretion of the MSF Fund Manager, the Time Period may be extended for up to an additional 30 days.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MSF DELEGATED AUTHORITY QUARTERLY UPDATE
MSDF AND SSBCI PROGRAMS
CAPITAL SERVICES TEAM
OCTOBER 1 – DECEMBER 31, 2011

BACKGROUND

On May 25, 2011, the MSF Board approved the Michigan Business Growth Fund, and its two programs, the Collateral Support Program ("MBGF-CSP"), and the Loan Participation Program. The MBGF, and its programs were created under, and are to be funded by, the federal government's State Small Business Credit Initiative ("SSBCI"). The MSF Board must approve MBGF requests over $2.5 million, and as delegated by the MSF Board on May 25, 2011, requests for collateral support or loan participation of $2.5 million or less may be approved by any two of the following: MSF Chairperson, or the MSF Fund Manager, or the MSF State Treasurer Director.

APPROVALS BY AUTHORIZED DELEGATES

Between October 1, 2011 and December 31, 2011 the following actions were approved by the MSF Chairperson and MSF Fund Manager, subject to due diligence, and available funding:

Organization	Request Type	MSF Support	Loan Amount	Action	Date Approved	Closed
Stone Transport Holding, Inc.	MBGF-LPP	$ 2,200,000	$ 6,000,000	Approved by Chair and Fund Manager	October 20, 2011	Y
Stone Transport Holding, Inc.	MBGF-LPP	$ 300,000	$ 1,100,000	Approved by Chair and Fund Manager	October 20, 2011	Y
GSE Machining & Fabrication, Inc.	MBGF-LPP	$ 93,100	$ 190,000	Approved by Chair and Fund Manager	October 20, 2011	Y
M-Industries, LLC*	MBGF-CSP	$ 99,800	$ 200,000	Approved by Chair and Fund Manager	October 31, 2011	Y
M-Industries, LLC*	MBGF-CSP	$ 141,000	$ 384,000	Approved by Chair and Fund Manager	October 31, 2011	Y
Steph's Properties, LLC	MBGF-CSP	$ 200,000	$ 600,000	Approved by Chair and Fund Manager	October 31, 2011	Y
Bandals International, Inc.	MBGF-CSP	$ 122,500	$ 250,000	Approved by Chair and Fund Manager	October 31, 2011	Y
Paneltek, LLC	MBGF-CSP	$ 392,000	$ 800,000	Approved by Chair and Fund Manager	November 2, 2011	N
Morpace, Inc.	MBGF-CSP	$ 2,450,000	$ 5,000,000	Approved by Chair and Fund Manager	November 22, 2011	N
Automation & Modular Components, Inc.	MBGF-CSP	$ 1,470,000	$ 3,000,000	Approved by Chair and Fund Manager	November 22, 2011	Y
The Enstrom Helicopter Corporation	MBGF-LPP	$ 1,470,000	$ 3,000,000	Approved by Chair and Fund Manager	November 22, 2011	Y
Specialty Lifting Equipment, Inc.	MBGF-LPP	$ 335,000	$ 735,000	Approved by Chair and Fund Manager	November 22, 2011	N
Symbiotic Energy, LLC	MBGF-CSP	$ 367,500	$ 750,000	Approved by Chair and Fund Manager	November 29, 2011	N
Michigan Polymer Reclaim	MBGF-CSP	$ 73,870	$ 323,000	Approved by Chair and Fund Manager	November 29, 2011	N
JMP Hanna, LLC	MBGF-CSP	$ 422,154	$ 846,000	Approved by Chair and Fund Manager	December 9, 2011	N
Engen Properties, LLC	MBGF-CSP	$ 1,100,000	$ 3,000,000	Approved by Chair and Fund Manager	December 9, 2011	N
Kalkaska Screw Products	MBGF-LPP	$ 183,632	$ 368,000	Approved by Chair and Fund Manager	December 29, 2011	N
Total		$ 11,420,556	$ 26,546,000			

*Revision for an approval originally provided on September 7, 2011

MEMORANDUM

Date: January 25, 2012

To: MSF Board

From: Antonio Lück, Portfolio Manager

Subject: 2005 Loan Subordination Request – Picometrix, LLC / Advanced Photonix, Inc.

BACKGROUND

Advanced Photonix, Inc. ("API" or "Company") (PicometrixAPI and API, collectively, "Company") is a publicly traded company (NYSE Amex API) and engages in the development and manufacture of optoelectronic devices and value-added sub-systems, and systems. The Company sells optical receivers, which include Avalanche Photodiode technology and PIN photodiode technology based upon III-V materials, including InP, InAlAs, and GaAs; custom optoelectronic subsystems; and terahertz instrumentation. The Company's optoelectronic subsystems are based on its silicon Large Area Avalanche Photodiode, PIN (positive-intrinsic-negative) photodiode, FILTRODE detectors, and LED assemblies. Its Terahertz sensor product line is targeted to the industrial non-destructive testing (NDT), quality control, homeland security, and military markets.

The Company serves original equipment manufacturers in industrial sensing/NDT, military/aerospace, telecom, medical, and homeland security industries. It markets its products through independent sales representatives, technical sales engineers, Internet, industry trade shows, and trade journals in North America, Asia, Europe, and Australia. The Company was founded in 1988 and is based in Ann Arbor, Michigan. The Company has approximately 160 employees based in its Ann Arbor office.

MSF LOAN DETAILS

API received an unsecured loan from the MSF in the principal amount $1,200,000 in 2005 ("MSF Loan"). The company also received an unsecured loan in the principal amount of $1,024,526 from the MEDC in 2004 ("MEDC Loan"). API is currently repaying both loans. This memo discusses the MSF Loan only. The MEDC is considering a similar request for the MEDC Loan.

2005 Loan Investment Terms:

Loan Amount:	$1,200,000
Type of Loan:	Straight Loan
Interest Rate:	4.00% APR
Loan Issuance Date:	September 15, 2005
Maturity Date:	November 1, 2009
Final Payment date:	October 1, 2014
Balance (as of January 1, 2012):	$827,144.70

MSF HOLDINGS IN API

On June 16, 2010, both the MSF and the MEDC converted the accrued and unpaid interest of its respective outstanding loans into Class A common shares of API; the MSF converted $237,667.39 into 440,124 Class A common shares and the MEDC converted $324,669.20 into 601,239 Class A common shares; at a share price of $0.54.

On February 16, 2011, the MSF approved sale of their stock in such manner deemed to minimize any potential negative influence on the market for API stock. The MEDC authorized a similar action for its shares of API stock. Pursuant to approval given by the MSF Board, MEDC Staff sold 176,780 shares of MSF-owned API stocks totaling $301,513.40. MEDC Staff also sold 223,220 shares of MEDC owned API stocks totaling $384,092.19. MSF retained 263,344 shares of API Stock after the initial sale. Since the last executed sale, API's stock price has lost significant value and MEDC Staff believes the MSF should hold the remaining stock until it reaches a more favorable market price. Current API (AMEX) stock price is around $0.77 per share.

SUBORDINATION REQUEST

API is requesting that the MSF subordinate the debt owed by API to the Silicon Valley Bank ("SVB") in an amount of up to $6 million. API is interested in securing from SVB a $5 million dollar line of credit, with a $3 million dollar EX-IM sublimit, and a $1 million dollar term loan. Staff is advised that API has dramatically grown their export revenues and the international content has reached a point where the Company needs a line of credit that allows foreign receivables to be part of the lending base in order to continue to expand operations. API will use also use part of the financing to expand its manufacturing capability in Ann Arbor with the acquisition of advanced equipment.

API currently has the Private Bank ("PVT") as its first secured lender with a $ 3 million dollar unused line of credit and an installment loan with a remaining balance of approximately $959,000. This loan was used to invest in new equipment relating to the consolidation of clean room in Wisconsin and California into API's Ann Arbor facility. These loans are a prime + ½%. The PVT will not finance foreign receivables.

API intends to replace the above mentioned loans with Silicon Valley Bank, where the Company will obtain a $5 million LOC (with up to $3 million of foreign receivables) at the same prime plus ½% interest rate. API does not have any need to draw on the line at this time but is looking to capture this line of credit to strategically position itself for growth and take advantage of SVB's expertise in high technology companies. In addition, SVB will provide a $1 million installment loan at prime plus ½% with a 3 year amortization , the proceeds of which will be used to retire the PVT installment loan. SVB has a liquidity ratio requirement of at least 2.5 of cash and accounts receivable to debt level and will retain a security interest in API. In essence, the SVB will replace the PVT and API will end up with an additional $2 million line of credit with the ability to finance foreign receivables.

The Company's September 2011 financial statements show that API has approximately $3.8 million in cash, $5.5 million in accounts receivables, $3.6 million in tangible property (after depreciation) and $4.7 million in inventory, totaling $17.6 million in collateral. API's cash position as of January 1, 2012 is approximately $3.5 million. The Company had a secondary offering (firm underwriting) of $ 7 million last year, has been EBITDA positive for the first 6 months of this fiscal year, and has retired debt over the past 18 months of $2.1 million.

RECOMMENDATION

MEDC Staff recommends that the MSF Board approve the request to subordinate the debt owed by API to the MSF to the interests of SVB, not to exceed the maximum principal amount of $6 million. The Company will continue to make scheduled payments to the MSF unless it is in default under the SVB loans. The MSF Investment Subcommittee has indicated its support of this recommendation.

Exhibit A

Advanced Photonix, Inc.
(NYSE Amex API)
Financial and Capitalization Data

Advanced Photonix 52 week per share trading range	High - $2.74 Low - $0.48
Current price as of December 27, 2011	$0.59
Current market cap as of December 27, 2011	$18.36 million
Total Outstanding Shares	30.97 million shares
Float	23.42 million shares
Held by insiders	16.28%
Held by institutions	7.20%
Average Daily Trading Volume	61,971 shares traded per day (13 weeks daily trading average)

Financial Highlights for the second quarter compared to the prior year

- The Company's revenues for the quarter ended September 30, 2011 were $8.4 million, an increase of 19% (or $1.4 million) over revenues of $7.0 million for the quarter ended September 30, 2010.
- Gross Profit for Q2 FY2012 was $3.6 million compared to Q2 FY2011 of $2.9 million, or an increase of 23%.
- Operating expenses were $3.9 million for the quarter as compared to $3.1 million for the comparable prior year period, an increase of $834,000 or 27%.
- Quarterly net loss was $254,000 or $0.01 per diluted share, as compared to a net loss of $398,000, or $0.02 per diluted share, for the quarter ended October 1, 2010.
- The Non-GAAP net profit for the second quarter of fiscal 2012 was $155,000 or $0.01 per diluted share, as compared to a Non-GAAP net profit of $209,000 or $0.01 per diluted share, for the comparable prior year period.
- EBITDA was a positive $260,000 for the second quarter of fiscal 2012 as compared to positive EBITDA of $455,000 for the comparable prior year period.

Financial Highlights for the six months ended compared to the six months ended Fiscal 2011

- Net Sales for the six months were $16.5 million, an increase of $3.2 million or 24% compared to the six months ended October 1, 2010.
- Year to date gross profit margin increased $1.1 million or 19% over the prior year six months ended October 1, 2010.
- Operating expenses were $7.7 million for the six months ended September 30, 2011 as compared to $6.2 million for the comparable prior year.

- Net loss for the six months was $236,000 or $0.01 per diluted share, as compared to a net loss of $671,000, or $0.03 per diluted share, comparable prior year period.
- The Non-GAAP net income for the six months of fiscal 2012 was $59,000 or $0.00 per diluted share, as compared to a Non-GAAP net income of $306,000 or $0.01 per diluted share, for comparable prior year period.
- EBITDA (which is defined as GAAP earnings before interest, taxes, depreciation, and amortization), was a positive $429,000 for the first quarter of fiscal 2012 as compared to an EBITDA of $841,000 comparable prior year period.

Market Highlights for the six months ended compared to the six months ended Fiscal 2011

- Telecommunication revenue up 94% or $3.7 million
- Medical Market revenue up 127% or $291,000
- Homeland security market revenues up $897,000

Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010

*Advanced Photonix, Inc. – Proxy statement and 2011 Annual Report to Shareholders Revenues

The Company predominantly operates in one industry segment, light and radiation detection devices that it sells to multiple markets including telecommunications, industrial sensing/NDT, military/aerospace, medical, and homeland security. Revenues by market consisted of the following:

	Year ended: March 31, 2011		March 31, 2010	
Telecommunications	$11,000,000	38%	$ 5,763,000	27%
Industrial Sensing/NDT	11,618,000	40%	8,457,000	40%
Military/Aerospace	4,836,000	17%	6,283,000	30%
Medical	828,000	3%	411,000	2%
Homeland Security	556,000	2%	161,000	1%
Total Revenues	$28,838,000	100%	$21,075,000	100%

Income Statement

All numbers in thousands

Period Ending	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009
Total Revenue	**28,838**	**21,075**	**29,675**
Cost of Revenue	16,479	12,059	16,744
Gross Profit	**12,359**	**9,016**	**12,931**
Operating Expenses			
Research Development	5,631	4,738	4,676
Selling General and Administrative	5,920	5,863	7,830
Non Recurring	-	-	-
Others	1,633	2,071	2,081
Total Operating Expenses	-	-	-
Operating Income or Loss	**(825)**	**(3,656)**	**(1,656)**
Income from Continuing Operations			
Total Other Income/Expenses Net	(820)	197	26
Earnings Before Interest And Taxes	(1,645)	(3,459)	(1,630)
Interest Expense	237	304	405
Income Before Tax	(1,882)	(3,763)	(2,035)
Income Tax Expense	-	(85)	-
Minority Interest	-	-	-
Net Income From Continuing Ops	(2,200)	(3,678)	(2,035)
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	**(1,882)**	**(3,678)**	**(2,035)**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	**(1,882)**	**(3,678)**	**(2,035)**

Balance Sheet

All numbers in thousands

Period Ending	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009
Assets			
Current Assets			
Cash And Cash Equivalents	5,244	1,762	-
Short Term Investments	-	-	-
Net Receivables	4,587	2,679	3,284
Inventory	4,775	3,656	3,669
Other Current Assets	349	200	252
Total Current Assets	**14,955**	**8,297**	**9,277**
Long Term Investments	-	-	278
Property Plant and Equipment	3,730	3,284	4,322
Goodwill	4,579	4,579	4,579
Intangible Assets	5,713	7,096	8,975
Accumulated Amortization	-	-	-
Other Assets	275	599	888
Deferred Long Term Asset Charges	-	-	-
Total Assets	**29,252**	**23,855**	**28,041**
Liabilities			
Current Liabilities			
Accounts Payable	4,373	3,246	3,521
Short/Current Long Term Debt	2,367	2,089	2,188
Other Current Liabilities	-	-	-
Total Current Liabilities	**6,740**	**5,335**	**5,709**
Long Term Debt	1,960	4,051	4,386
Other Liabilities	343	112	-
Deferred Long Term Liability Charges	-	-	-
Minority Interest	-	-	-
Negative Goodwill	-	-	-

Total Liabilities	**9,043**	**9,498**	**10,095**
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	31	24	24
Retained Earnings	(37,713)	(35,831)	(34,478)
Treasury Stock	-	-	-
Capital Surplus	57,891	50,164	52,400
Other Stockholder Equity	-	-	-
Total Stockholder Equity	**20,209**	**14,357**	**17,946**
Net Tangible Assets	**9,917**	**2,682**	**4,392**

Cash Flow

All numbers in thousands

Period Ending	Mar 31, 2011	Mar 31, 2010	Mar 31, 2009
Net Income	**(1,882)**	**(3,678)**	**(2,035)**
Operating Activities, Cash Flows Provided By or Used In			
Depreciation	2,583	3,239	3,238
Adjustments To Net Income	1,034	185	204
Changes In Accounts Receivables	(1,908)	605	(82)
Changes In Liabilities	1,142	(275)	928
Changes In Inventories	(1,119)	13	462
Changes In Other Operating Activities	(323)	63	(59)
Total Cash Flow From Operating Activities	**(473)**	**152**	**2,656**
Investing Activities, Cash Flows Provided By or Used In			
Capital Expenditures	(1,396)	(130)	(721)
Investments	-	-	-
Other Cash flows from Investing Activities	(251)	86	814
Total Cash Flows From Investing Activities	**(1,647)**	**(44)**	**93**
Financing Activities, Cash Flows Provided By or Used In			
Dividends Paid	-	-	-
Sale Purchase of Stock	348	16	46
Net Borrowings	(1,813)	(434)	(806)
Other Cash Flows from Financing Activities	6,567	-	-
Total Cash Flows From Financing Activities	**5,102**	**(418)**	**(759)**
Effect Of Exchange Rate Changes	-	-	-
Change In Cash and Cash Equivalents	**2,982**	**(310)**	**1,990**

Exhibit B
Advanced Photonix, Inc.
(NYSE Amex API)

The Following table sets forth the contractual obligations of the Company at March 31, 2011

Contractual Obligations		**Payments due by period**			
	Total	**Within 1 year**	**1 – 3 years**	**3 – 5 years**	**More than 5 years**
Bank line of credit	$ 494,000	$ 494,000	$ -	$ -	$ -
Bank term loan	687,000	687,000	-	-	-
Long-term MEDC loans	1,971,000	511,000	1,460,000	-	-
Debt to related parties	1,175,000	675,000	500,000	-	-
Subtotal–Balance Sheet	**$ 4,327,000**	**$ 2,367,000**	**$ 1,960,000**	**$ -**	**$ -**
Expected interest expense on current debt obligations	241,000	153,000	88,000	-	-
Operating lease obligations	7,343,000	967,000	2,493,000	1,829,000	2,054,000
Purchase obligations	3,381,000	3,381,000	-	-	-
Total	**$ 15,292,000**	**$ 6,868,000**	**$ 4,541,000**	**$ 1,829,000**	**$ 2,054,000**

Debt Maturity Table (in 000's)

	Balance 3/31/10	**Balance 3/31/11**	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017 & Beyond**
Credit Line - The Private Bank	$ 1,394	**$ 494**	$ 494	$ --	$ --	$ --	$ --	$ --
Term Loan – The Private Bank	1,121	**687**	687	--	--	--	--	--
Debt to Related Parties	1,401	**1,175**	675	500	--	--	--	--
MEDC loans	2,224	**1,971**	511	531	552	377	--	--
TOTAL	**$ 6,140**	**$ 4,327**	**$ 2,367**	**$ 1,031**	**$ 552**	**$ 377**	**$ --**	**$ --**

*Advanced Photonix, Inc. – Proxy statement and 2011 Annual Report to Shareholders - http://investor.advancedphotonix.com/secfiling.cfm?filingID=1157523-11-3820

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

PICOMETRIX, LLC
DEBT SUBORDINATION REQUEST

WHEREAS, the Michigan Economic Development Corporation ("MEDC") and Picometrix, LLC, a Delaware limited liability company ("Picometrix" or "Company") entered into a Michigan Tri-Corridor ("MTTC") Loan Agreement ("Loan Agreement") whereby the MEDC agreed to loan up to $1,200,000 to Picometrix under the terms and conditions set forth in the Loan Agreement and the Promissory Note ("Note"), each dated September 15, 2005, as amended (the Loan Agreement and Note, collectively, "Indebtedness");

WHEREAS, Picometrix is owned by Advanced Photonics, Inc. ("API"), a publicly traded company;

WHEREAS, Public Acts 215 and 225 of 2005 established the 21st Century Jobs Trust Fund initiative;

WHEREAS, the legislation created the jobs for Michigan investment fund ("Investment Fund") within the Michigan Strategic Fund ("MSF") as a permanent fund, MCL 125.2088h;

WHEREAS, pursuant to the legislation, the Investment Fund shall consist of all payments otherwise payable to the MEDC under the Note and return on investments under the Agreement;

WHEREAS, at its October 28, 2009 meeting, the MSF Board approved assignment of the Note and Loan Agreement from the MEDC to the MSF;

WHEREAS, Picometrix desires to obtain from Silicon Valley Bank ("SVB") a line of credit in the principal amount of up to $5 million and a term loan in the principal amount of up to $1 million ("SVB Loans"), toward fostering business growth and opportunities;

WHEREAS, to accommodate the SVB Loans, Picometrix has requested that the MSF subordinate the Indebtedness (to allow regular payments to the MSF when Picometrix is not in default under the SVB Loans) in an amount not to exceed the total of the SVB Loans ("Debt Subordination Request");

WHEREAS, the MEDC recommended that the MSF Investment Subcommittee recommend approval of the Debt Subordination Request; and

WHEREAS, the MSF Investment Subcommittee recommends that the MSF approve the Debt Subordination Request.

NOW, THEREFORE, BE IT RESOLVED, the MSF approves the Debt Subordination Request; and

BE IT FURTHER RESOLVED, that the MSF Fund Manager or its Chairperson is authorized to negotiate documents necessary to complete the Debt Subordination Request and to sign the documents on the MSF's behalf, if the final terms and conditions are not otherwise materially adverse to the interest of the MSF.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

PURE MICHIGAN

MEMORANDUM

Date: January 25, 2012

To: MSF Board

From: Michael Psarouthakis, Vice President of Business Acceleration

Subject: Delegation of Authority for Certain 21st Century Jobs Fund Programs

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BACKGROUND

Over the last few months and over the next several months, MEDC Staff's ongoing day to day portfolio management will find increased signs that certain portfolio loans are in or approaching non-performing status. The most common reason being identified for non-performance is awardee cash-flow issues. Among other things, cash flow shortfalls lead to an awardee's general inability to pay creditors on existing terms or obtain additional lines of credit for operations, cessation of operations, formal dissolution, and of course, combinations of these occurrences.

The MSF portfolio of loans referenced in this memorandum include: (i) the Company Formation and Growth Fund (retention of Pfizer assets) program, (ii) 21st Century Jobs Fund 2006 and 2008 business plan competition rounds, as well as the predecessor programs (iii) Michigan Technology Tri-Corridor Fund program, (iv) Michigan Life Science Corridor Fund program, and those loans awarded under the Choose Michigan program (collectively ("Loan Program(s)").

Under the delegation of authority approved by the MSF Board at its June 23, 2010 meeting, the following thresholds apply for certain actions, including matters involving restructure requests, voting equity holdings, and non-performing loans, taken under the Loan Program(s):

MSF Chairperson, Fund Manager or State Treasurer for loans with a principal amount less than $500,000 at the time of award.

MSF Investment Subcommittee recommendation to the MSF Chairperson, Fund Manager or State Treasurer for loans between the principal amount of $500,000 and $999,999 at the time of award.

MSF Investment Subcommittee recommendation to the MSF Board for loans with a principal amount of $1,000,000 or more at the time of award.

MEDC Staff has been contemplating a revised delegation of authority structure that would result in more efficient and effective loan administration in light of the increasing amounts of requests related to the Loan Program(s). As more loans come due, and as more and more companies begin experiencing distress, MEDC Staff will continue to devote greater efforts to help preserve MSF interests in the receivables created by the Loan Programs.

To bring this program in line with the levels of delegated authority with other 21st Century Job Fund and SSBCI Programs, and to allow the MEDC staff to be responsive in a timely manner to various requests, MEDC Staff believes that authorizing each of the MSF Chairperson, MSF Fund Manager, and the MSF State Treasurer Director"), to make all decisions with respect to awards made under the Loan Program(s), and within the parameters set forth in this memo, makes practical sense, while leaving some decisions on these matters to the MSF Board following recommendation by the MSF Investment Subcommittee. However, only the action of either the MSF Chairperson, Fund Manager or the MSF State Treasurer

Director is necessary. The processes contemplated involve delineating contemplated authority delegation based on the value of the original principal amount of the awards or equity basis, as applicable.
Set forth below is a best estimate of the breakdown of loan awards and equity holdings under the various Loan Programs as of December 1, 2011:

Outstanding Loans

(Based on original principal amount of the Loan Program Awards):

Category	#	% of Total Loans	$	% of Total Loans
Loans < $1,000,000	55	50%	10,211,218	10%
Loans ≥ $1,000,000 < $3,000,000	49	44%	71,725,252	65%
Loans ≥ $3,000,000	7	6%	29,275,□04	25%
	111	100%	$111,211,874	100%

Outstanding Equity Holdings
(Based on equity basis (the underlying P & I at time of loan conversion))

Category	#	% of Total Equity	$	% of Total Equity
Equity < $1,000,000	4	29%	621,967	3%
Equity ≥ $1,000,000, < $3,000,000	8	57%	9,960,424	49%
Equity ≥ $3,000,000	2	14%	9,919,593	48%
	14	100%	$ 20,501,984	100%

DELEGATION OF AUTHORITY BY MSF BOARD

MEDC Staff believes that the three categories detailed below be used to create a workable and efficient process going forward to deal with all matters related to awards made under the Loan Program(s).

A. MSF CHAIRPERSON/MSF FUND MANAGER/MSF STATE TREASURER DIRECTOR/MSF INVESTMENT SUBCOMMITTEE/MSF BOARD ACTION:

1. **MSF CHAIRPERSON, MSF FUND MANAGER AND MSF STATE TREASURER DIRECTOR - FOR EACH LOAN PROGRAM AWARD LESS THAN OR EQUAL TO THE PRINCIPAL AMOUNT OF $1,000,000 AT THE TIME OF THE AWARD:**

   MEDC Staff recommends that the MSF Board delegate to each of the MSF Chairperson, the MSF Fund Manager and the MSF State Treasurer Director the authority to make all decisions with respect to awards under the Loan Program(s)

2. **MSF INVESTMENT SUBCOMMITTEE RECOMMENDATION TO THE MSF CHAIRPERSON, MSF FUND MANAGER OR MSF STATE TREASURER DIRECTOR FOR EACH LOAN PROGRAM AWARD BETWEEN THE PRINCIPAL AMOUNT OF $1,000,001 AND $3,000,000 AT THE TIME OF THE AWARD:**

MEDC Staff recommends that the MSF Board delegate to the MSF Investment Subcommittee the authority to consider and make recommendations to either the MSF Chairperson, MSF Fund Manager or the MSF State Treasurer Director for all decisions with respect to awards under the Loan Program(s)

3. **MSF INVESTMENT SUBCOMMITTEE RECOMMENDATION TO THE MSF BOARD FOR EACH LOAN PROGRAM AWARD IN THE PRINCIPAL AMOUNT OF $3,000,001 OR MORE AT THE TIME OF THE AWARD:**

   MEDC Staff recommends that the MSF Board delegate the authority to the MSF Investment Subcommittee to make a recommendation for MSF Board decision with respect to awards under the Loan Program(s).

In either case 1 or 2 above, the MSF Chairperson, MSF Fund Manager or MSF State Treasurer Director (as the case may be), or MSF Investment Subcommittee may recommend that the matter proceed to presentation to, and decision of, the MSF Board.

B. LITIGATION REFERRALS TO THE DEPARTMENT OF ATTORNEY GENERAL

In keeping with the protocol of the Department of Attorney General, MEDC Staff understands that the MSF Board is to act by resolution to request formal representation by the Department of Attorney General in any filed court proceeding or recommendation to pursue litigation, except those noted below. Prior to recommending litigation representation to the MSF Board, MEDC Staff notes that it will first consult informally with staff of the Department of Attorney General assigned to the Loan Programs or other 21CJF program.

In the following cases, MEDC Staff recommends that the MSF Board delegate to each of the MSF Chairperson, MSF State Treasurer Director and the MSF Fund Manager, with only one required to act, have the authority to make a request for formal representation by the Department of Attorney General in a court proceeding involving any Loan Program or other 21CJF program:

a. Should any matter require immediate action to preserve the rights of the MSF where awaiting an MSF Board meeting would harm the interests of the MSF, including without limitation, those instances where a response or other pleading must be filed, or other court appearance appears necessary; and

b. In any bankruptcy filed by or against any 21CJF Program award recipient.

The MSF Investment Subcommittee has indicated its support of this recommendation.

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

APPROVAL OF DELEGATION OF AUTHORITY
FOR 21ST CENTURY JOBS FUND PROGRAMS

WHEREAS, Public Acts 215 and 225 of 2005 established the 21st Century Jobs Trust Fund initiative;

WHEREAS, the Michigan Economic Development Corporation provides administrative services for the Michigan Strategic Fund ("MSF") for 21st Century Jobs Fund programs ("21CJF Programs");

WHEREAS, certain of the 21CJF Programs include: (i) the Company Formation and Growth Fund (retention of Pfizer assets program), (ii) 21st Century Jobs Fund 2006 and 2008 business competition rounds, as well as the predecessor programs, Michigan Technology Tri-Corridor Fund program and Michigan Life Sciences Corridor Fund Program, and (iii) those loans awarded under the Choose Michigan program (collectively, "Loan Program(s)");

WHEREAS, under MCL 125.2005(7), the MSF Board may delegate to its president, vice-president, staff, or others those functions and authority the MSF Board deems necessary or appropriate, including with respect to the 21CJF Program(s) and its Loan Program(s);

WHEREAS, the MEDC has recommended to the MSF Investment Subcommittee that the MSF delegate authority to make all decisions with respect to awards under the 21CJF Programs and its Loan Program(s) (collectively, "21CJF Delegation of Authority") as follows:

Level of Award under 21CJF Programs	Delegates
Award less than or equal to an original amount of $1,000,000	MSF Chairperson or the MSF Fund Manager or the State Treasurer Director
Award with an original amount greater than $1,000,001 and $3,000,000	MSF Investment Subcommittee Recommendation to the MSF Chairperson or MSF Fund Manager
Awards with an original amount of $3,000,001 or more	Full MSF Board upon recommendation of the MSF Investment Subcommittee

WHEREAS, the MEDC has recommended to the MSF Investment Subcommittee that the MSF Board delegate to each of the MSF Chairperson, the MSF State Treasurer Director, and the MSF Fund Manager their respective authority to request formal representation of the MSF by the Department of Attorney General in any court proceeding involving any 21CJF Program should either of them deem that immediate action may be required to preserve the rights of the MSF where waiting for a meeting of the MSF Board would potentially harm the interests of the MSF, including, without limitation, those instances where a response or other pleading must be filed, or other court appearance seems necessary and in any bankruptcy filed by or against any 21CJF Program award recipient ("Delegation of Authority for Formal Representation for Any 21CJF Program"); and

WHEREAS, based on the recommendation of the MEDC and the MSF Investment Subcommittee, the MSF Board deems it necessary and appropriate, and desires, to approve the 21CJF Delegation of Authority and the Delegation of Authority for Formal Representation for Any 21CJF Program.

NOW, THEREFORE, BE IT RESOLVED, the MSF hereby approves the 21CJF Delegation of Authority;

BE IT FURTHER RESOLVED, that should a matter not be initially approved under either 21CJF Delegation of Authority, the matter must be presented to the MSF Board in the event any further recommendation to approve the matter is desired;

BE IT FURTHER RESOLVED, the MSF Chairperson or the MSF Fund Manager, with only one required to act and in consultation with the Department of Attorney General, is authorized to negotiate and sign all final documents on the MSF's behalf with respect to matters made part of the 21CJF Delegation of Authority; and

BE IT FURTHER RESOLVED, Resolution 2010-096 is rescinded in its entirety.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MEMORANDUM

Date: January 25, 2012

To: MSF Board

From: Steve Haakenson - Portfolio Manager, Entrepreneurship and Innovation

Subject: Translume, Inc.
Loan Restructure Request
2006 21st Century Jobs Fund Convertible Loan – 06-1-P1-0154

BACKGROUND

Translume, Inc. ("Translume" or "Company") received a 2006 21st Century Jobs Fund award in the principal amount of $1,650,310. The award was to assist the company in producing and commercializing its line of real time fluid monitoring systems. These systems were developed for applications in truck and heavy equipment fleets, defense vehicles, and stationary equipment systems.

The company is located in Ann Arbor and was founded in 2001 with venture capital funding by two venture capital groups, Ardesta and Avalon. The majority of its research funding was provided through ongoing grant contracts with the Department of Defense ("DoD") for the development of various processes and product prototypes related to their micromachining capabilities.

Translume's core competencies are its foundry services for glass micromachining as well as its ability to develop optical analyzers with integrated optics and microfluidics. The company provides machining and micromachining technologies for defense, aerospace, biomedical, and automotive industries. It offers fused silica micro fluidic chips for bio, medical, and chemical applications in the fields of genomics, proteomics, nanotechnology, and particle counting; as well as optical devices for applications in defense aerospace, and telecommunications. The company also provides glass micromachining services, such as optical and opto-mechanical design assistance, prototype development, and electro-mechanical integration for micro optics, micro fluidics, and microstructures.

Translume's manufacturing technology is based on the use of femtosecond lasers to create microfluidic optical sensors from solid blocks of glass. The fluid sensing elements are typically as small as a few hundred microns, and many elements can be written in one glass block. The company has several patents, or patent applications related to the protection on its fluid condition sensor technology and several processes related to its laser-based manufacturing processes.

2006 MSF LOAN DETAILS

Translume received a $1,650,310 award from the MSF in 2006 ("MSF Loan").

Loan Amount:	$ 1,650,310
Amount Disbursed:	$ 1,212,902 ($437,408 undisbursed)
Type of Loan:	Convertible Loan
Interest Rate:	8.25% APR
Loan Issuance Date:	January 18, 2007
End of Grace Period:	January 18, 2012

Maturity Date:	January 1, 2017
Outstanding Interest as of 1/01/2012:	$ 438,500.22
Outstanding Balance as of 1/01/2012:	$ 1,651,402.22
Monthly Payments:	$ 33,651.12
Per Diem Rate:	$ 274.15 per day
Collateral:	All Tangible Personal Property, Excluding Inventory (Intercreditor Agreement with Ardesta provides equal rights on collateral on a prorate basis)

COMPANY HIGHLIGHTS

The first fluid analyzer developed by Translume, for analyzing engine oil, was named SootSmart and was launched in 2007. The company presented its product to industry players and, initially, received positive feedback from the prototypes tested. Unfortunately, SootSmart eventually encountered poor customer demand due to uncertainty in the heavy equipment supply chain as a result of new EPA standards for diesel engine emissions and fuel, as well as slowed growth and innovation in the heavy equipment market in late 2008. However, as a result of SootSmart, Translume has established a strategic partnership with one of the world's largest oil filter companies to develop a sensor for analyzing hydraulic oil. Translume also continues to work with other potential strategic partners for prototype development and regularly receives federal funding for research in different applications such as optical, biological, and biomedical from both NIH and NASA.

All milestones required under the MSF loan have been completed. However, the company has elected not to make further draws under the loan in order not to incur further debt that is not related to the project for which the loan was awarded. The economic market conditions and low market demand for Translume's product has resulted in inadequate cash flow to make the scheduled payments. Annual revenue has been stagnant between $1M and $1.5M over the past 4 years. Although Translume have been reporting losses of $20,000 per month, they have been able to maintain operations as a result of management and employee sacrifices as well as receiving support from their primary investor, Ardesta. A $512,000 line of credit and $250,000 loan with Ardesta has also been accruing interest, totaling approximately $590,000, with no payments over the past several years. As part of the loan restructure, Ardesta has agreed to restructure their loans on equal terms to the MSF loan.

LOAN RESTRUCTURE REQUEST

Due to the above delays in activities at Translume, the company is requesting that the MSF Board approve:

- a 24 month (2 year) extension on the loan grace period on their convertible loan to January 18, 2014
- after the grace period has ended, payments will resume over 60 months (5 years) fully amortized, ending January 1, 2019

An analysis for making interest only payments has resulted in the determination by the Portfolio Manager that the company's current ability to make any payments is not feasible until such time that the company is able to secure a strategic partner and/or generate increase sales by penetrating the biomedical instruments market

In exchange for this consideration, the Company has agreed to the following conditions:
- an interest rate increase from the current 8.25% to 9.25%;
- warrants equal to $120,000 to be exercised at the time of a future venture financing event, IPO, or liquidity event;

- that the MSF loan be limited to the current $1,212,902 balance already disbursed, with all undisbursed funds on the loan ($437,408) be recaptured by the MSF and returned to the Jobs for Michigan investment fund (the “Investment Fund”); and
- a restructure of all company loans from Ardesta (4 loans totaling approximately $762,250) to be on similar terms as those approved by the MSF Board.

RECOMMENDATION

MEDC Staff respectfully recommends that the MSF Board approve the loan restructure as presented above. MEDC staff has analyzed both current and projected financial, as well as maintaining regular interaction and updates regarding the company’s opportunities and leads. Staff believes the company could make principal and interest payments over a 60 month amortization following an additional grace period of 24 months and restated principal date of January 18, 2014. In consideration for this restructure, Translume has agreed to the following conditions: i) interest rate increase from the current 8.25% to 9.25%; ii) warrants to the MSF in an amount equal to $120,000 and to be exercised at the time of a future venture financing event, IPO, or liquidity event; iii) the MSF loan be limited to the current $1,212,902 balance already disbursed, with all undisbursed funds on the loan ($437,408) be recaptured by the MSF and returned to the Investment Fund; and iv) a restructure of all company loans from Ardesta (4 loans totaling approximately $762,250) to be on similar terms as those approved by the MSF Board.

The MSF Investment Subcommittee has indicated its support of this recommendation.

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

TRANSLUME, INC. – LOAN AMENDMENT

WHEREAS, Public Acts 215 and 225 of 2005 established the 21st Century Jobs Trust Fund initiative;

WHEREAS, the Michigan Economic Development Corporation ("MEDC") provides administrative services for the Michigan Strategic Fund ("MSF") for 21st Century Jobs Fund programs;

WHEREAS, the Michigan Strategic Fund ("MSF") and Translume, Inc., a Michigan corporation ("Translume" or "Company"), entered into a 21st Century Business Plan Competition Convertible Loan Agreement, dated January 18, 2007 ("Loan Agreement"), whereby the MSF and the Strategic Economic Investment and Commercialization Board ("SEIC Board") agreed to loan up to $1,650,310.00 to Translume under the terms and conditions set forth in the Convertible Loan Agreement, Security Agreement and Promissory Note (the "Note"), each dated January 18, 2007 (the Loan Agreement, Security Agreement, and Note, collectively, "Loan Documents");

WHEREAS, Translume has requested that the MSF amend the Loan Documents to effectuate an extension to the grace period and new payment schedule, with terms and conditions that shall include:

(a) increasing the interest rate under the Note from 8.25% to 9.25%;

(b) extending the grace period ending date under the Note from January 18, 2012 to January 18, 2014;

(c) on January 18, 2012, restating all accrued and unpaid interest on the Note and adding it to the outstanding principal;

(d) requiring Note payments in equal installments of principal and interest to begin on February 1, 2014 and continuing for the following 59 months;

(e) coincident with the above amendments to the Loan Documents, requiring Translume to effectuate the issuance of warrants equal to $120,000 worth of stock in Translume with an exercise price of $.01/share (the actual number and type of shares eligible to be purchased dependent upon the applicable type and per share price of stock at the time of a future venture financing event, IPO, or liquidity event);

(f) also in consideration of the above restructure terms, requiring Translume to amend all loans to the Company from Ardesta, LLC (four loans totaling approximately $762,250) to contain terms and conditions similar to any amendments to the Loan Documents approved by the MSF Board at its January 25, 2012 meeting; and

(g) amendment of the Note to reduce the original principal amount of the Note by approximately $437,408 and deposit of that $437,408 into the Jobs for Michigan investment fund for future use by the MSF Board in accordance with MCL 125.2088h.

(the aforementioned, collectively "Loan Amendment Request")

WHEREAS, the MEDC has reviewed the Loan Amendment Request and has determined that the Loan Amendment Request should enhance Translume's business interests and contribute to economic development in the State of Michigan;

WHEREAS, the MEDC recommended to the MSF Investment Subcommittee that the MSF approve the Loan Amendment Request;

WHEREAS, based on the recommendation of the MEDC, the MSF Investment Subcommittee recommends that the MSF approve the Loan Amendment Request; and

WHEREAS, the MSF has determined that the Loan Amendment Request should enhance Translume's business interests and contribute to economic development in the State of Michigan.

NOW, THEREFORE, BE IT RESOLVED, the MSF approves the Loan Amendment Request and

BE IT FURTHER RESOLVED, that the MSF Fund Manager or its Chairperson, in consultation with the Department of the Attorney General, is authorized to negotiate documents necessary to complete the Loan Amendment Request, and to sign the documents on the MSF's behalf, if the final terms and conditions are not materially adverse to the interest of the MSF.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

PURE MICHIGAN®

MEMORANDUM

Date: January 25, 2012

To: MSF Board

From: Michael Psarouthakis, Vice President Business Acceleration

Subject: Michigan Venture Match Fund – Notice of Public Hearing

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BACKGROUND

The investment environment continues to be extremely challenging for Michigan based companies. This is especially true for venture backed investments in earlier stage technology companies.

The lack of venture capital investment in Michigan is evident as most venture capital firms that consider Michigan opportunities often require companies to have fairly significant revenues prior to considering an investment. Many Michigan based venture capital funds do not have sufficient capital or the risk profile to make earlier stage investments that typically have a longer timeframe to exit, and are often difficult to syndicate with other venture capital firms.

Under the Michigan Venture Match Fund ("MVM"), the Michigan Strategic Fund ("MSF") would provide a match of up to $500,000 for eligible venture investments in Michigan based technology companies.

The program hopes to tackle four issues in Michigan regarding early stage venture investing:

1. Attract venture funds, within and outside of Michigan, to consider investments in early stage and pre revenue Michigan based technology companies.
2. Mitigate some risk for venture fund investments at this stage by participating with MSF Funds in early rounds, allowing the venture fund to retain dry powder for future investment rounds.
3. Give Michigan based companies a program that they can immediately point to as a syndication possibility when they approach venture firms.
4. Create an investment program that is primarily market driven.

Similar programs have been very successfully in other states. One of the best known is the Venture Maryland Fund. As of the 2010 annual report from the Venture Maryland Fund, approximately $32 million in venture matching investments has generated realized returns of $62 million. The fair market value of the remaining portfolio has been valued at approximately $14 million. More importantly, the Venture Maryland Fund has helped attract venture capital firms to invest in 61 companies. The Venture Maryland Fund was recently approved for an additional $70 million, with new investments expected in 2012.

OUTLINE OF THE MICHIGAN VENTURE MATCH PROGRAM

A total of $10,000,000 is targeted for the MVM Fund over a three year period. This initial request for funding of $3,000,000 million from the Jobs for Michigan investment fund (the "Investment Fund") is expected to last approximately one year given the historic deal flow of venture investments in Michigan. Staff expects to bring additional funding requests to the MSF board in the future.

The MVM Fund will provide a 50% match, up to $500,000, for venture investments in Michigan based companies of no less than $700,000 and no more than $1 million. A venture investment that exceeds $1 million but is no more than $3 million in total could be matched with $500,000. Venture investments that are, or expected to be, greater than $3 million will not be eligible to apply for a MVM investment. Companies that have historically raised more than $3 million in venture capital will not be eligible to apply for a MVM investment.

Applicant companies will be required to present a signed term sheet showing a venture investment commitment of at least $700,000 to be eligible to apply for an investment from the MVM Fund. This creates a market-driven selection process and ensures that the MSF is making an investment in companies with a high likelihood for success.

PROCESS AND PROGRAM REQUIREMENTS

Pursuant to Section 88k of the MSF Act, the MSF must establish a competitive process to make awards under the MVM Fund. Applicant companies must be engaged in competitive edge technologies, including life sciences technology; advanced automotive, manufacturing, materials, information, and agricultural processing technology; homeland security and defense technology; alternative energy technology; and any other innovative technology as determined by the MSF Board. Applications submitted in response to this funding opportunity will undergo evaluation by independent peer review experts based on the following four, equally weighted criteria: scientific and technical merit, personnel expertise, commercial merit, and the ability to leverage additional funding. Detailed information on the MVM Fund process and program requirements are attached as Exhibit A ("MVM Fund Program Guidelines") and incorporate the competitive process requirements of Section 88k of the MSF Act.

The MSF Act also requires that a public hearing be held to provide the opportunity for the general public to comment on the proposed MVM Fund Program Guidelines and the proposed resolution. The proposed resolution approving the MVM Fund is attached as Exhibit B ("MVM Fund Resolution"). After consideration of the comments and information received at the public hearing, the final MVM Fund Program Guidelines will be presented to the MSF Board for approval and implementation.

RECOMMENDATION

MEDC Staff respectfully recommends that the MSF Board authorize the Issuance of a Notice of Public Hearing to be held on February 8, 2012 at the Michigan Economic Development Corporation for the purpose of receiving public comment on the MVM Fund Program Guidelines and MVM Fund Resolution.

The MSF Investment Subcommittee has indicated its support of this recommendation.

Michigan Strategic Fund Board

21st Century Jobs Fund

Michigan Venture Match Fund

Program Process & Guidelines

Release Date: March 1, 2012

Table of Contents

I. IMPORTANT DATES and REMINDERS

- Applications will not be accepted prior to March 1, 2012
- Questions from potential applicants regarding the Michigan Venture Match Fund will only be accepted via email to MVM@michigan.org. Please note: The Michigan Strategic Fund Board ("MSF Board") or the Michigan Economic Development Corporation ("MEDC") staff will respond to questions on an ongoing basis submitted to the above email address only. Questions that are phoned, faxed, sent through regular mail, or emailed directly to MEDC staff will not be accepted or responded to.
- Responses to all qualifying questions will be posted on the MEDC's website, www.michiganadvantage.org/MichiganVentureMatchFund periodically and potential applicants are encouraged to check www.michiganadvantage.org/MichiganVentureMatchFund frequently for responses to qualifying questions.
- Proposals, including the application fee of $1,500, must be received by the MEDC. Proposals must be submitted via the MEDC Client Portal for Salesforce. A link to the portal is located at www.michiganadvantage.org/MichiganVentureMatchFund.
- An independent peer review will be conducted upon receipt of a qualified application. Applicants should plan to be available for face to face interviews with the peer reviewers.
- Award decisions expected to be announced on an ongoing basis until funding is fully committed.
- Applications will no longer be accepted once 2012 funding has been fully committed. If additional funding is designated for the Michigan Venture Match Fund the application process will be reopened.

Applicants are required to submit proposals via the MEDC Client Portal for Salesforce. A link to the portal is located at www.michiganadvantage.org/MichiganVentureMatchFund. Registration is required and should be completed at least one day prior to business plan submission.

A non-refundable application fee of $1,500, due at the time of submission, is required for each proposal. It is the applicant's sole responsibility to submit its proposal and application fee.

Applicants must submit a proposal, in the form of a business plan, not exceeding 35 pages, utilizing ten (10) point font or greater, submitted as a single Portable Document Format (.pdf) file. Proposals in excess of 35 pages will be disqualified. This limit of 35 pages does not include the required attached appendices for collaborator letters of support, venture fund term sheets and resumes of key people.

Prior to final submission, please verify all of the specifications in the Request for Michigan Venture Match Program as defined in this document are included.

II. INTRODUCTION

Public Act 215 of 2005, Section 88k(2) ("MSF Act") allows the Strategic Economic Investment Commercialization ("SEIC") Board to award grants, loans and investments from the 21st Century Jobs Fund for "…basic research, applied research, university technology transfer and commercialization of products, processes and services to encourage the development of competitive edge technologies to **create jobs in the State**." Under Executive Order 2010-8, the Governor ordered the SEIC Board abolished and all powers, duties, and functions of the SEIC Board transferred to the Michigan Strategic Fund ("MSF").

Through this Request for the Michigan Venture Match Fund, the MSF Board desires to allocate up to $3 million ("Award Amount") as matching investments and is expected to be disbursed over 1 to 2 years, to for profit companies to match a venture investment in the for profit Company. ("the Fund(s)").

A. Program Overview

Under the umbrella of the 21st Century Jobs Fund Initiative, the MSF Board has been given the opportunity to foster the growth of innovative companies with the potential for high growth in Michigan by investing in the most promising, nationally competitive, commercialization opportunities. The program objective is to oversee a competitive process to award funds that encourages economic diversification in innovative, competitive edge technology sectors as defined in the MSF Act.

Early stage, innovative companies often require venture capital to help bridge critical stages of development and commercialization. The MSF Board seeks to bridge this capital gap and help early stage companies develop technologies, grow innovative companies, diversify Michigan's economy and create economic wealth in the state.

A funding opportunity has been designed in the area of innovative venture capital. The Michigan Venture Match Fund ("MVM Fund") is soliciting applications from Michigan companies that have received an equity investment commitment from a qualified Venture Fund for commercialization and growth purposes to provide a match of the investment as follows:

- Qualified venture investments from $700,000 to $1,000,000 will be matched by a 50% ($350,000 to $500,000) investment from the MVM Fund.
- Qualified venture investments from $1,000,000.01 to $3,000,000 will be matched by a $500,000 investment from the MVM Fund.

Only **for-profit** companies are eligible for funding under this Request for Proposals through the MVM Fund. Additionally, to be eligible, the applicant must:

- Be a Michigan based Company; **AND**
- The Company must be involved in competitive edge technologies, including, life sciences technology; advanced automotive, manufacturing, materials, information, and agricultural

processing technology; homeland security and defense technology; alternative energy technology; and/or any other innovative technology as determined by the MSF Board; **AND**

- Have a signed investment term sheet from a qualified Venture Fund(s) of no less than $700,000 and no more than $3,000,000 **AND**
- Demonstrate that funding from the qualified Venture Fund and funding from the Michigan Venture Fund Program will cover operational and growth costs of the Company for a minimum of 12 months; **AND**
- Demonstrate that the qualified Venture Fund meets the following criteria:
  - The Venture Fund must have a minimum of three limited partners with no one limited partner having made more than a 35% contribution to the venture fund; **AND**
  - The Venture Fund must have a minimum of $10 million under management; **AND**
  - The Venture Fund may be a Corporate Venture Fund from the most recent Fortune 1,000 list , if so the three limited partner requirement is waived; **AND**
  - The Venture Fund must have a minimum of two managing partners/directors; **AND**
  - Investments made by a managed Angel fund, family investment office, or other investment organization that is not viewed as a Venture Fund in the review process will not qualify for matching funds from the Michigan Venture Math Program; **AND**
  - The Venture Fund must be a member of the Michigan Venture Capital Association and/or the National Venture Capital Association; **AND**
  - The Venture Fund may be located in any state or country that can legally conduct business in the United States; **AND**
  - The Venture Fund investment must not be more than 15% of the total funds under management; **AND**
- At the time of the first investment, a business must have its principal business operations in the State of Michigan; **AND**
- Agree to use the investment primarily to establish or support business operations in Michigan; **AND**
- The Company may have no more than 200 employees; **AND**
- The Company may not be primarily engaged in real estate development; the business of insurance, banking, or lending; or professional services by accountants, attorneys, or physicians; **AND**
- As a condition of receiving investments, a Company must agree to maintain its principal operations in Michigan for a minimum of three years while the MVM Fund investment is in place. The Company must agree to provide a repurchase agreement to the MSF that provides for an optional repurchase of the qualified investment at current market value if the Company relocates out of Michigan prior to the third anniversary of the execution of the Michigan Venture Match Program investment agreement.

A Company may apply to the Michigan Venture Match Program no more than twice. No Company may receive more than $500,000 in total from the MVM Fund. No Company may apply or receive funding from this program if the Company has secured more than $3,000,000 in venture investments prior to applying to the MVM Fund, or if the current round of fundraising or fundraising within twelve months of the application is anticipated to be greater than $3,000,000.

Funding (in the form of an equity investment) will be awarded to for-profit companies through a competitive process in which all submitted proposals will be reviewed by independent peer review experts. Results from the independent peer review will be in the form of numerical scores and a recommendation to the MSF Board.

Proposals must demonstrate ability for significant market opportunity, job creation, ability to leverage additional capital and indicate an experienced management team is in place. Returns earned on investments made by the Michigan Venture Match Program fund shall be returned to the MVM Fund for reinvestment

Proposals will be scored and ranked by independent peer review experts based on the following four, equally weighted legislatively mandated criteria:

- Commercialization Merit
- Personnel Expertise
- Ability to Leverage Additional Funds
- Scientific and Technical Merit

Upon consideration of the independent peer review recommendation, the MSF will make final award decisions.

B. Confidentiality of Submitted Materials

<u>All</u> proposal materials and materials generated throughout the competition, including, but not limited to, peer review materials, letters of commitment, biographical information, and due diligence information, submitted to the MEDC and State of Michigan through the MSF Board may be subject to public disclosure under Michigan's Freedom of Information Act ("FOIA"). For further details on confidentiality requirements refer to the *Legal and Policy Section,* **Appendix E.**

As provided in the Michigan Strategic Fund Act ("MSF ACT"), the applicants may request that "financial or proprietary information," as defined in the MSF Act, contained within proposal submission materials be protected from disclosure under the Michigan FOIA. Such information <u>MUST</u> be identified directly within the material submitted by applicants and comply with the following requirements:

Identify each component and portion of the narrative for which you are requesting confidentiality. ***Text, tables or graphics MUST be bolded and marked with asterisks and brackets (*[bold if text]*) within the narrative.***

Identify the attachment and the portion of the document for which you are requesting confidentiality. ***Text, tables or graphics MUST be bolded and marked with asterisks and for portions of a multi-page document, such as the Business Plan, you MUST also list the page numbers of all pages that contain information marked by asterisks and bold brackets.***

Applicants understand that by failing to properly identify information that the applicant desires to be designated as confidential by the MSF Board, the applicant waives all rights and actions against the MEDC, the MSF Board, and the State of Michigan and its participants, officers, agents and employees regarding the release of information that could have otherwise been acknowledged as confidential but for the applicant's failure to properly designate the information as provided in this section or take other necessary action to have information acknowledged as confidential. It is the applicant's sole responsibility to identify information that it desires to be designated as confidential. Neither the MSF Board nor MEDC shall be liable for any inadvertent disclosure of any of the applicant's information designated as confidential by the applicant.

The MSF Board will determine and acknowledge information requested to be kept confidential on a case by case basis.

C. Governing Board and Administration

The MSF Board is comprised of 11 members, including the Director of the Department of Licensing and Regulatory Affairs, the State Treasurer, the Chief Executive Officer of the MEDC and 8 additional members appointed by the Governor. A current list of MSF Board members can be found at the following internet link, www.michiganadvantage.org.

Under the 21st Century Jobs Fund initiative, the MSF Board sets the strategic direction for funding commercialization activity and authorizes funding decisions. The MSF Board has designated the MEDC staff to provide administrative services for the programs that fall under the Board's responsibilities, including administration of support service activities such as early stage funding programs.

This program is subject to Michigan law. In the event of any conflicts that proceed to court, jurisdiction will be in a Michigan court of law. Nothing in this document shall be construed to limit the rights and remedies of the State of Michigan, the MSF Board, or the MEDC. As provided by Michigan law, the MSF Board retains complete discretion to accept or reject any proposal. In accordance with PA 215 and in concert with the Chief Compliance Officer of the 21st Century Jobs Fund, the MSF Board has established a comprehensive conflict of interest policy.

Any award is subject to the availability of funds. Applicants acknowledge that the MSF Board's performance of its payment obligation is contingent upon the State Legislature's continued approval of funding for the 21st Century Jobs Fund initiative.

D. Estimated Timeline

March 1, 2012	MSF Board approval and release of final RFP Early Stage Funding
Ongoing No Deadline	Applicant questions due via e-mail
Ongoing No Deadline	Responses to questions posted on MEDC Website at www.michiganadvantage.org/MichiganVentureMatchFund
Ongoing No Deadline	Proposals in the form of a business plan must be received by the MSF Board via the MEDC Client Portal for SalesForce located at www.michiganadvantage.org/MichiganVentureMatchFund
Estimated 30 to 60 days from date of the application	Review Period; an independent peer review will be conducted. Applicants should plan to be available for face to face interviews with the peer review panel during this period if selected to proceed.

Awards will be announced on a rolling basis. The MSF will continue to accept applications until funding for the MVM Fund is fully committed.

All questions from applicants must be submitted via email to MVM@michigan.org. Questions that are phoned, faxed, sent through regular mail, or emailed directly to MEDC staff will not be accepted. Answers to qualifying questions will be posted periodically at www.michiganadvantage.org/MichiganVentureMatchFund and applicants are encouraged to check that website frequently.

Proposals and the application fee will be time stamped by the MEDC Client Portal for SalesForce. It is the sole responsibility of the applicants to submit proposals and application fees in a timely fashion prior to funding being fully committed. Applicants are advised that registration is required on the MEDC Client Portal for SalesForce and should be completed at least one day prior to business plan submission.

Incomplete proposals will not be accepted or reviewed. **Any change or update to the acceptance of proposals will be posted on the MEDC website.** Such postings shall constitute constructive notice to the general public and to all applicants of any modifications or alterations of the deadline for proposals. Therefore, applicants are strongly encouraged to continuously check the MEDC website at www.michiganadvantage.org/MichiganVentureMatchFund.

III. ELIGIBLITY, REQUIREMENTS AND OBLIGATIONS

A. Technology Sectors

Proposals, in the form of a business plan, **MUST** include documentation of a match of a qualified Venture Investment in a Michigan business, to create jobs and commercialize product(s) within one or more of the competitive edge technology sectors defined in Section 125.2088a of the MSF Act, as amended, and as determined by the MSF Board, including Advanced Automotive, Manufacturing, Materials, Information, and Agricultural Processing Technology; Alternative Energy; Homeland Security and Defense Technology; Information Technology, Agricultural Technology and Life Sciences. For detailed definitions refer to the ***Appendices A-E.***

B. For-Profit Entity

Only for-profit companies are eligible to receive funding through the MVM Fund.

Eligible for-profit organizations must be authorized to conduct business in the State of Michigan. For further details on eligibility requirements refer to *Legal Requirements,* ***Appendix F.***

C. Application Fee

A non-refundable application fee of $1,500, payable to the MEDC and due at the time of submission, is required for each proposal.

D. Financial Contributions

The MSF Board requires applicants secure a qualified Venture Investment of at least $700,000 and no more than $3,000,000. Each proposal must include a signed term sheet(s) from a qualified Venture Fund,

For investments in companies in the pre-seed/start-up stage, the Fund(s) must either demonstrate third party match for the Fund as a whole or require a financial match for each individual investment, and preference will be given to proposals based on the demonstration of the Fund's ability to secure greater amounts of financial match. This "matching money" must be from a source other than public programs administered by the State of Michigan, and must meet the following tests:

- In order to qualify as matching money, previously committed funds cannot have been expended at the time of the award.

- This matching investment may only come from a qualified Venture Fund.

- Letters of financial commitment are required from those who will provide the qualified Venture Match investment. If the financial commitment has already been funded, evidence must be provided. In each case, the letter must indicate the source of funds, the amount of match, the date the match was or is to be provided, and the terms of the matching money.

The MSF requires applicants to leverage a qualified Venture investment as a condition of the award. Each proposal must provide a specific financial contribution committed to, or available for, the direct support of the proposed plan. This leverage or "matching money" must be from a qualified Venture Fund, and must meet the following tests:

- The source of the matching money has performed financial due diligence on the Company

- Preference will be given for matching money that is either in-hand or committed at the time of application. If an applicant does not yet have cash in-hand or committed dollars, applicants may submit a term sheet that is only conditioned on receiving an investment from the Michigan MVM Fund.

- In order to qualify as matching money, previously committed funds cannot have been expended at the time of the award and the commitment can be no older than 90 days prior to Company application to the MVM Fund

- Preference will be given if the source of the matching money is capable of adding value to the applicant beyond the financial match itself

- Preference will be given if the source of the matching money is capable of providing follow on funding

E. Awards, Agreements and Required Terms

Awards will be distributed in the form of equity investments at the discretion of the MSF Board. Agreement boilerplate language, when available, will be distributed to applicants.

The total amount available for all investments made pursuant to this RFP is $3 million. Generally, investments will be disbursed over a one to three-year period. After investment awards have been officially announced, MEDC staff will contact each award recipient to set up a date and time to negotiate the contractual terms for the investment agreement and to structure a monitoring program. Successful applicants will also be informed of the requirements for progress reports.

All contracts approved by the MSF Board will contain a provision that the Auditor General has access to the books and records, including financial records and all other information and data relevant to the terms of the contract related to the use of the investment.

The Company will provide board observer rights to the designated MEDC portfolio manager to all Company Board of Director meetings.

As a condition of receiving an investment from the MVM Fund, a business must agree to maintain its principal operations in Michigan for a minimum of three years and execute a repurchase agreement with the MSF that provides for the repurchase of a qualified investment if the business voluntarily relocates out of Michigan prior to the third anniversary of the execution of the Michigan Venture Match Program investment agreement.

Successful proposals approved for funding by the MSF Board are subject to the final execution of a legal agreement and successful completion of a due diligence review including, among other things, criminal and civil background checks of the applicant. Background checks will include, without limitation, affiliates, subsidiaries, officers, directors, managerial employees, and any person or entity which directly or indirectly holds a pecuniary interest in that business entity of 20% or more. Further details concerning this process are included in *Legal Requirements,* ***Appendix F.***

F. Overhead Rate

The overhead rate (indirect administration costs) for the award is limited to reflect actual overhead, but not greater than fifteen percent (15%) of the Award Amount over the lifetime of the contract. Preference will be given to proposals that are able to leverage outside funding sources to reduce overhead expenses for the Fund(s).

IV. INDEPENDENT PEER REVIEW PROCESS

Proposals will be evaluated by independent peer review experts with business expertise and experience in areas such as venture capital, business creation and business growth scenarios, and technology commercialization. Results from the independent peer review will be in the form of numerical scores and recommendations to the MSF Board for award decisions.

All proposals must demonstrate a matching investment from a qualified Venture Fund and will be scored and ranked based on the four equally weighted legislatively mandated criteria as referenced below.

DECISIONS BY THE MSF BOARD ARE FINAL AND NOT SUBJECT TO APPEAL

V. BUSINESS PLAN FORMAT

Proposals must be in the form of a business plan, not to exceed 35 pages, utilizing ten (10) point font or greater, submitted as a single Portable Document Format (.pdf) file attachment. Proposals in excess of 35 pages will be disqualified. This page limit does not include the required appendices for letters of collaboration and/or financial commitment, policy on conflict management and biographical information as noted below.

Proposals can only be submitted electronically via the MEDC Client Portal for Salesforce. A link to the portal is located at www.michiganadvantage.org/MichiganVentureMatchFund. Registration is required and should be completed at least one day prior to business submission. **Proposals will not be accepted via U.S. mail or any other delivery method.** A non refundable application fee of $1,500, due at the time of submission, is required for each proposal.

Applicants should keep in mind the following four, equally weighted legislatively mandated criteria by which all proposals will be evaluated:

- Commercialization Merit
- Personnel Expertise
- Ability to Leverage Additional Funds
- Scientific and Technical Merit

Applicants are asked to submit a business plan that must contain, at a minimum, the following items:

A. Executive Summary

- Overview of Company and business plan
- Significance to Michigan

B. Management

- Key people – experience and background
- People needed and plans for recruitment
- Organization chart – current and 3 years out
- Board of Directors, if applicable – experience and background
- Scientific Advisory Board, if applicable – experience and background

C. Job Creation

- Current staffing – type (category/range) and number
- Direct jobs to be created (employees that receive W2's as well as those receiving 1099 statements) – type (category/range), number, salary levels, and projected timeline for hire
- In-Direct jobs expected to result from this opportunity – type (category/range), number and projected timeline

D. Product or Service

- Description – scientific merit of technology and/or product
- Development – current state
- Development plan – timeline, costs, pending activities
- Intellectual property plan – existing, in development, to be acquired, timeline

E. Market

- Size of addressable market
- Growth rate of market
- Competitive assessment

F. Sales

- Marketing strategy – distribution, pricing, positioning, promotion
- Detailed sales plan – direct or leveraged thru value added channels
- Sales personnel – experience and background of personnel

G. Financing

- Past and current funding sources
- Sources and amounts of funds leveraged to match potential 21st Century Jobs Fund award

- Plan for meeting additional funding needs until entity is self-sustaining (follow-on funding)

H. Milestones and Timing

- Job Creation
- Product Development – Technical
- Commercialization – Marketing
- Financial Objectives

I. Financial Documents

- One-page presentation of current capitalization table showing shares owned (individual shareholder names may be omitted and replaced with generic identifiers), date purchased, and prices paid and forecasted capitalization table for next three (3) years, additional equity financing needs/expectation
- Two-page summary of three (3) year forecast: balance sheet, income statement, cash flow

J. Appendix of Historical Financials (This information will not be counted toward the thirty-five (35) page limit. The electronic award management system will provide an option to upload these documents).

- Balance sheet, income statement, cash flow (audited or certified by CEO or CFO) for previous three (3) years
- A policy on conflict management
- Most recent period-to-date actual financials compared to budget-to-date for same period as well as annual budget

K. Bios of Key People, Board Members and Venture Fund managers (This information will not be counted toward the thirty-five (35) page limit. The electronic award management system will provide a one-page form on which bio information should be entered.)

L. Venture Firm Company analysis that includes investment and valuation justification regarding venture fund investment commitment in the applicant Company

M. Venture Firm overview that includes target market strategy, total capital under management, amount of available capital, historic return performance and industry comparison (This information will not be counted toward the thirty-five (35) page limit).

Note: Providing these financial documents is for Review and Evaluation purposes and shall not be construed as a substitution, if awarded, for the information required to be submitted as part of the due diligence phase of the award agreement process. Separate and additional documentation may be required. These documents may be subject to disclosure under Michigan FOIA.

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Appendix A

Advanced Automotive, Manufacturing, Materials, Information, and Agricultural Processing Technology Definitions

"Advanced Automotive, Manufacturing, Materials, Information, and Agricultural Processing Technology" means any technology that involves one (1) or more of the following:

- Materials with engineered properties created through the development of specialized process and synthesis technology
- Nanotechnology, including materials, devices, or systems at the atomic, molecular, or macromolecular level, with a scale measured in nanometers
- Microelectromechanical systems, including devices or systems integrating microelectronics with mechanical parts and a scale measured in micrometers
- Improvements to vehicle safety, vehicle performance, vehicle production, or environmental impact, including, but not limited to, vehicle equipment and component parts
- A new technology, device, or system that enhances or improves the manufacturing process of wood, timber, or agricultural-based products
- Any technology that involves an alternative energy vehicle or its components, as alternative energy vehicle is defined under Section 2 of the Michigan NextEnergy authority act, 2002 PA 593, MCL 207.822
- Advanced computing or electronic device technology related to advanced automotive, manufacturing materials, information, and agricultural processing technology
- Design, engineering, testing, or diagnostics related to advanced automotive, manufacturing, information, and agricultural processing technology
- Product research and development related to advanced automotive, manufacturing, information, and agricultural processing technology

"Alternative Energy Vehicle" includes the following:

- "Alternative Fueled Vehicle" – A motor vehicle that can only be powered by a clean fuel energy system and can only be fueled by a clean fuel
- "Fuel Cell Vehicle" – A motor vehicle powered solely by a fuel cell energy system
- "Electric Vehicle" – A motor vehicle powered solely by a battery cell energy system
- "Hybrid Vehicle" – A motor vehicle that can only be powered by 2 or more alternative energy systems
- "Solar Vehicle" – A motor vehicle powered solely by a photovoltaic energy system

- “Hybrid Electric Vehicle” – A motor vehicle powered by an integrated propulsion system consisting of an electric motor and combustion engine. Hybrid electric vehicle does not include a retrofitted conventional diesel or gasoline engine. A hybrid electric vehicle obtains the power necessary to propel the motor vehicle from a combustion engine and one (1) of the following:
    - A battery cell energy system
    - A fuel cell energy system
    - A photovoltaic energy system

“Advanced computing” means any technology used in the design and development of one (1) or more of the following:

- Computer hardware and software
- Data communications
- Information technologies

“Electronic Device Technology” means any technology that involves microelectronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; or data and digital communications and imaging devices.

Appendix B

Alternative Energy Technology Definitions

"Alternative Energy Technology" means applied research or commercialization of new or next generation technology in 1 or more of the following:

- Alternative energy technology as that term is defined in [Section 2 of the Michigan NextEnergy Authority Act, 2002 PA 593, and MCL 207.822] [see below)]
- Devices or systems designed and used solely for the purpose of generating energy from agricultural crops, residue and waste generated from the production and processing of agricultural products, animal wastes, or food processing wastes, not including a conventional gasoline or diesel fuel engine or retrofitted conventional gasoline or diesel fuel engine
- A new technology, product, or system that permits the utilization of biomass for the production of specialty, commodity, or foundational chemicals or of novel or economical commodity materials through the application of biotechnology that minimizes, complements, or replaces reliance on petroleum for the production. Alternative Energy Technology also includes a new technology, product, or system that utilizes wind energy
- Advanced computing or electronic device technology related to alternative energy technology
- Design, engineering, testing, or diagnostics related to alternative energy technology
- Product research and development related to alternative energy technology

  "Alternative Energy Technology" means equipment, component parts, materials, electronic devices, testing equipment, and related systems that are solely related to the following: (*Note: See 2002 PA 593 for complete definitions*)

  - The storage or generation of hydrogen for use in an alternative energy system
  - A microgrid as defined as lines, wires, and controls to connect 2 or more alternative energy systems
  - The process of generating and putting into a usable form the energy generated by an alternative energy system. Alternative energy technology does not include those component parts of an alternative energy system that are required regardless of the energy source

  "Alternative Energy Systems" include the following:

  - Fuel Cell Energy System – One (1) or more fuel cells or fuel cell stacks and an inverter or other power conditioning unit. A fuel cell energy system may also include a fuel processor
  - Photovoltaic Energy System – A solar energy device composed of one (1) or more photovoltaic cells or photovoltaic modules and an inverter or other power conditioning unit. A photovoltaic system may also include batteries for power storage or an electricity storage device
  - Solar-Thermal Energy System – An integrated unit consisting of a sunlight collection device, a system containing a heat transfer fluid to receive the collected sunlight, and heat

exchangers to transfer the solar energy to a thermal storage tank to heat or cool spaces or water or to generate electricity

- Wind Energy System – An integrated unit consisting of a wind turbine composed of a rotor, an electrical generator, a control system, an inverter or other power conditioning unit, and a tower, which uses moving air to produce power
- CHP Energy System – An integrated unit that generates power and either cools, heats, or controls humidity in a building or provides heating, drying, or chilling for an industrial process that includes and is limited to both of the following:
    - An absorption chiller, a desiccant dehumidifier, or heat recovery equipment
    - One of the following:
        - An internal combustion engine, an external combustion engine, a microturbine, or a miniturbine, fueled solely by a clean fuel
        - A fuel cell energy system
- Microturbine Energy System – A system that generates electricity, composed of a compressor, combustor, turbine, and generator, fueled solely by a clean fuel with a capacity of not more than 250 kilowatts. A microturbine energy system may include an alternator and shall include a recuperator if the use of the recuperator increases the efficiency of the energy system
- Miniturbine Energy System – A system that generates electricity, composed of a compressor, combustor, turbine, and generator, fueled solely by a clean fuel with a capacity of not more than 2 megawatts. A miniturbine energy system may also include an alternator and a recuperator
- Stirling Cycle Energy System – A closed-cycle, regenerative heat engine that is fueled solely by a clean fuel and uses an external combustion process, heat exchangers, pistons, a regenerator, and a confined working gas, such as hydrogen or helium, to convert heat into mechanical energy. A Stirling cycle energy system may also include a generator to generate electricity
- Battery Cell Energy System – One or more battery cells and an inverter or other power conditioning unit used to perform 1 or more of the below functions:
    - Propel a motor vehicle or an alternative energy marine propulsion system
    - Provide electricity that is distributed within a dwelling or other structure
    - Provide electricity to operate a portable electronic device including, but not limited to, a laptop computer, a personal digital assistant, or a cell phone
- "Battery Cell" means a closed electrochemical system that converts chemical energy from oxidation and reduction reactions directly into electric energy without combustion and without external fuel and consists of an anode, a cathode, and an electrolyte
- Clean Fuel Energy System – A device that is designed and used solely for the purpose of generating power from a clean fuel. Clean fuel energy system does not include a conventional gasoline or diesel fuel engine or a retrofitted conventional diesel or gasoline engine
- Clean fuels are defined as:
    - Methane
    - Natural gas
    - Methanol neat or methanol blends containing at least 85% methanol
    - Denatured ethanol neat or ethanol blends containing at least 85% ethanol

- Compressed natural gas
- Liquefied natural gas
- Liquefied petroleum gas
- Hydrogen

- Electricity Storage System – One or more electricity storage devices and inverters or other power conditioning equipment. An “electricity storage device” means a device, including a capacitor, that directly stores electrical energy without conversion to an intermediary medium

“Advanced Computing” means any technology used in the design and development of 1 or more of the following:

- Computer hardware and software
- Data communications
- Information technologies

“Electronic Device Technology” means any technology that involves microelectronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; or data and digital communications and imaging devices.

Appendix C

Homeland Security/Defense Technology Definitions

"Homeland Security and Defense Technology" means technology that assists in the assessment of threats or damage to the general population and critical infrastructure, protection of, defense against, or mitigation of the effects of foreign or domestic threats, disasters, or attacks, or support for crisis or response management, including, but not limited to, one (1) or more of the following:

- Sensors, systems, processes, or equipment for communications, identification and authentication, screening, surveillance, tracking, and data analysis
- Advanced computing or electronic device technology related to homeland security and defense technology
- Aviation technology, including, but not limited to, avionics, airframe design, sensors, early warning systems, and services related to homeland security and defense technology
- Design, engineering, testing, or diagnostics related to homeland security and defense technology
- Product research and development related to homeland security and defense technology

"Advanced Computing" means any technology used in the design and development of one (1) or more of the following:

- Computer hardware and software
- Data communications
- Information technologies

"Electronic Device Technology" means any technology that involves microelectronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; or data and digital communications and imaging devices.

Appendix D

Life Sciences Technology Definitions

"Life Sciences" means science for the examination or understanding of life or life processes, including, but not limited to, all of the following:

- Bioengineering
- Biomedical engineering
- Genomics
- Proteomics
- Molecular and chemical ecology
- Biotechnology, including any technology that uses living organisms, cells, macromolecules, microorganisms, umbilical cord blood or substances from living organisms to make or modify a product for useful purposes

Biotechnology does not include any of the following:

- Activities prohibited under Section 2685 of the public health code, 1978 PA 368, MCL 333.2685
- Activities prohibited under Section 2688 of the public health code, 1978 PA 368, MCL 333.2688
- Activities prohibited under Section 2690 of the public health code, 1978 PA 368, MCL 333.2690
- Activities prohibited under Section 16274 of the public health code, 1978 PA 368, MCL 333.16274
- Stem cell research with human embryonic tissue

"Life Sciences Technology" means any technology derived from life sciences intended to improve human health or the overall quality of human life, including, but not limited to, systems, processes, or equipment for drug or gene therapies, biosensors, testing, medical devices or instrumentation with a therapeutic or diagnostic value, a pharmaceutical or other product that requires United States Food and Drug Administration approval or registration prior to its introduction in the marketplace and is a drug or medical device as defined by the federal food and drug cosmetic act, 21 USC 301 to 399A, or one (1) or more of the following:

- Advanced computing or electronic device technology related to life sciences technology
- Design, engineering, testing, or diagnostics related to life sciences technology
- Product research and development related to life sciences technology

“Advanced Computing” means any technology used in the design and development of 1 or more of the following:

- Computer hardware and software
- Data communications
- Information technologies

“Electronic Device Technology” means any technology that involves microelectronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics; optical and optic-electrical devices; or data and digital communications and imaging devices.

Appendix E

Other Innovative Technologies

Information Technology, including but not limited to, the following:

- Technology used in the design and development of computer hardware and software;
- Technology used to facilitate the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information; and
- Technology that involves microelectronics, semiconductors, electronic equipment or instrumentation, radio frequency, microwave, or millimeter electronics; optical or optic-electrical devices; or data and digital communications and imaging devices.

Agricultural Processing Technology including but not limited to the following:

- Technology used in the processing of raw food products into finished goods sold by grocers, wholesalers, restaurants, or institutional food services;
- Technology used to add value to and/or change the form of a raw agricultural product; and
- Technology used by operations that transform, package, sort, or grade livestock or livestock products, agricultural commodities, or plants or plant products into goods for intermediate or final consumption.

Alternative Energy Technology including but not limited to the following:

- Technology designed to reduce consumption of fossil fuels or carbon dioxide emissions;
- Technology designed to produce energy from renewable sources including but not limited to wind, water, and solar power;
- Technology designed to reduce pollution or loss of natural resources; and
- Technology involving the conservation, testing, remediation, or treatment of drinking water, wastewater, ground water, or surface water.

Appendix F

Legal Requirements

A. Eligibility and Obligations

To receive funding under this program, the applicant organization must be a Michigan based for-profit at the time of the award. To be eligible to apply for funding, out-of-state, for-profit companies must establish a significant portion of their business in Michigan, or have substantially all of its employees in Michigan at or before the time an award agreement is entered into. The Michigan based for-profit Company must use a substantial amount of the award received from the MSF Board in Michigan based activities. Use of more than 10% of the award for activities outside the State of Michigan at one time or over the life of the MVM Fund investment must be approved in writing by the MEDC Portfolio Manager and the Vice President, Business Acceleration or the MSF Fund Manager.

Overall, the majority of economic benefits resulting from this project must occur within the State of Michigan. In addition, the Primary Contact must be located in Michigan for the duration of the project at the principal site at which, or from which, project activities will be performed. If a Primary Contact relocates outside of Michigan during the award period, the recipient organization must identify an alternate Primary Contact who is located in Michigan or a Michigan-based collaborator to take over the direction of the award. An alternate Primary Contact is subject to the final written approval of the Portfolio/Contract Manager. If such arrangements are not feasible, the award will be rescinded.

The award cannot be assigned or transferred.

Applicants, entities and/or collaborators that have received a previous award from the 21st Century Jobs Fund or the former MTTC/MLSC programs are eligible for an award. Applicants, entities, and/or collaborators must identify if they have received previous awards under these programs. Progress of previously funded proposals, including the status of any outstanding grants, investments or loans, will be evaluated as part of the review process.

B. Collaboration

The 21st Century Jobs Fund sets high standards for collaboration and requires evidence of genuine, productive collaboration. Collaboration is encouraged and will be given preference, but is not required. All collaborators shall be identified in the designated area of the application. In general, collaborating entities should be Michigan-based, as one of the goals of the 21st Century Jobs Fund is to increase collaboration between or among Michigan for-profit companies and Michigan institutions of higher education, Michigan non-profit research institutions, and Michigan non-profit corporations. Collaboration with non-Michigan-based entities may be permitted **if** the applicant can demonstrate that the collaborator: (i) provides access to specialized resources, scientific, technical, and commercial expertise that are not readily available in Michigan; and (ii) ultimately benefits Michigan in a manner consistent with the intent of the 21st Century Jobs Fund.

Applicants are advised that the MSF Board consists of 11 members. An action of the MSF Board including making an award to a successful applicant requires the vote of six members. While collaboration is highly encouraged, it is each applicant’s responsibility to determine: (i) how many collaborating entities a proposal should include; (ii) whether any of those collaborating entities will result in the recusal of a MSF Board member because of an actual or apparent conflict of interest; and (iii) how to structure the proposal to ensure that at least six MSF Board members will be available to vote on the proposal. Failure to properly consider this issue may result in an application not being considered by the MSF Board.

C. Award Agreement

The MSF Board, or MEDC staff on behalf of the MSF Board (provided that there are no material changes to the budget approved by the MSF Board), may adjust the proposed budget or term of the award based on input from the peer review process. The MSF Board may also choose to partially fund a project based upon the availability of funds. Post-award contract development, due diligence site visits, and financial and legal document submissions, among other things, may also require adjustments to proposed budgets. Award agreements will contain further information on the procedure for adjusting proposed budgets and milestones for the term of the award agreement.

MEDC staff will review contractual terms for the award agreement and structure an award-monitoring program. The successful applicant will be informed of the requirements for award monitoring and progress reports. The award agreement will contain reporting requirements as stipulated in Public Act 215 of 2005, including, but not limited to, the following:

- Entities that have received funding, the amount received, and the type of funding
- Valuation of the Company
- The number of new patents, copyrights, or trademarks applied for and issued to the Company
- The number of new jobs created and new jobs projected by the Company
- Amounts of other funds leveraged by the Company
- Money or other revenues or property returned to the Company
- The total number of new licensing agreements by institution and the number of new licensing agreements entered into by the Company
- Products commercialized and revenues generated by the Company
- State business taxes paid by the Company

All award agreements approved by the MSF will contain a provision that the MSF, the MEDC, the Auditor General and the Chief Compliance Officer have access to the books and records, including financial records and all other information and data relevant to the terms of the award agreement, related to the use of the award.

Prior to an award being disbursed, the MEDC and the Office of the Chief Compliance Officer will conduct due diligence on the awardee, including, but not limited to, criminal and civil background checks of the applicant, and review of the organizational documentation and financial information of the applicant. The background checks will include, but may not be limited to, affiliates, subsidiaries, officers, directors and managerial employees. To facilitate these background checks, applicants will be required to provide as part of the required due diligence the complete names, addresses, and birthdates of all persons who fall within the above definition.

D. Required Disclosures and Conflicts of Interest

All proposals shall include disclosure statements signed by the Primary Contact of the official proposal and by any other stakeholder(s) or collaborating entity involved in the activities being proposed.

For as long as the application is pending <u>and</u> during the term of the award agreement, if applicable, the disclosure statement must be updated any time a ***significant financial interest***, as defined on the disclosure statement, arises.

E. Breach of Contract

A violation of any provision of the award agreement is grounds for any or all of the following, among other possible remedies:(i) rescission of the award; (ii) termination of all related underlying contractual agreements in which the MSF Board or MEDC is a party; or (iii) repayment by the recipient (s) of the award or any portion thereof, actually disbursed, either directly or indirectly, to the recipient.

If the MSF Board has a reasonable belief that a breach of award agreement has occurred, the MSF has the right to have the award recipient's annual financial statements separately audited by an independent certified public accountant. If the audit reveals that a breach has occurred, the award recipient shall reimburse the MSF for the fees and expenses incurred to perform the audit in addition to other remedies available to the MSF Board at law or equity.

Naming a figurehead from Michigan as Primary Contact while the project work is conducted by a non-Michigan-based organization or is substantially performed in another state is <u>**not sufficient**</u> for eligibility and, if discovered after an award has been made, will result in the termination or rescission of the award and subject the award recipient to any other remedies available to the MSF Board at law or equity. In addition to the requirements contained in this document and as provided by law, the contracts and policies of the MSF Board may provide for additional rights and remedies.

F. Notice of Proprietary Information Michigan Freedom of Information Act

Except as otherwise provided in these guidelines, all information in an applicant's proposal is subject to disclosure under Public Act No. 442 of 1976, known as the "Freedom of Information Act". This act also provides for complete disclosure of contracts, their attachments, due diligence materials, progress reports submitted throughout the term of the award agreement and financial documents submitted as required under the award agreements. Proposal information is furnished to the MEDC, independent peer review experts and the State of Michigan, through the MSF Board.

Proposal materials submitted by applicants may contain "financial or proprietary information", which is defined as "information that has not been publicly disseminated or which is unavailable from other sources, the release of which might cause competitive harm". Applicants are provided an opportunity to specifically designate such proprietary or financial information.

Applicants must be aware that, pursuant to MCL 125.2005(9), information the applicant deems confidential must be acknowledged by the Michigan Strategic Fund (MSF) Board as confidential to protect such information from disclosure under the Michigan Freedom of Information Act, MCL 15.243(1)(d). Information that is not acknowledged as confidential by the MSF Board may be subject to disclosure under the Michigan Freedom of Information Act. <u>Unless considered proprietary in nature, routine financial information cannot be acknowledged as confidential</u>. The MSF Board will make the final decision on whether information designated as confidential by the applicant will be acknowledged as confidential.

Applicants agree that by failing to properly identify information that the applicant desires to be designated as confidential by the MSF Board, the applicant waives all rights and actions against the MEDC, the MSF Board, and the State of Michigan and its participants, officers, agents and employees regarding the release of information that could have otherwise been acknowledged as confidential but for the applicant's failure to properly designate the information as provided in this section or take other necessary action to have information acknowledged as confidential. It is the applicant's sole responsibility to identify information that it desires to be designated as confidential.

Neither the MSF Board nor the MEDC shall be liable for any inadvertent disclosure of any of the applicant's information designated as confidential by the applicant.

G. Submission Materials

Applicants may request confidential treatment for "financial or proprietary information" contained within proposal submission materials that meets the definition of "financial or proprietary information contained in the MSF Act. Such information **MUST** be identified directly within the material submitted by applicants by the following requirements:

Identify each component and portion of the narrative for which you are requesting confidentiality. ***Text, tables, or graphics MUST be bolded and marked with asterisks and brackets (*[bold if text]*) within the narrative.***

Identify the attachment and the portion of the document for which you are requesting confidentiality. ***Text, tables or graphics MUST be bolded and marked with asterisks and brackets (*[bold if text]*) on the attachment. If you are requesting confidentiality for portions of a multi-page document, such as the Business Plan, you MUST also list the page numbers on all pages that contain information marked by asterisks and bold brackets.***

Proposals that fail to differentiate truly proprietary information from public information by indiscriminately labeling large sections or entire proposals as proprietary cannot be properly protected and will be returned to the applicant without review and **may result in disqualification. Watermarks, footers and headers that state "Confidential" or similar general indications will be construed to be an indiscriminate labeling of confidential information and will not be acknowledged.**

Abstract/Executive Summary

The abstract or executive summary section required should not contain any confidential information. Applicants are advised that all information contained within the abstract or executive summary is subject to disclosure under the Michigan FOIA. By inserting confidential information in the abstract, applicants waive any and all rights and/or actions against the MEDC, the MSF Board and the State of Michigan for the release of information that otherwise would have been confidential information but for the applicant's inclusion of the confidential information in the abstract.

H. Independent Peer Review Process

Names of review or interview panel members will not be available to applicants. Applicants and their representatives are NOT permitted to contact the peer review agency, reviewers, or the MSF Board members regarding the applicant's proposal. All communications regarding the proposal or review process should be conducted via the following email address: MVM@michigan.org. Any attempt by an applicant to contact the above mentioned parties may result in proposal disqualification.

By submitting a proposal, the applicant acknowledges that the decision to award an investment is subject to the sole discretion of the MSF Board. This MSF Board's decision is final and is not subject to appeal. Any attempt by an applicant, collaborating entity, or other party of interest to the proposed project to appeal and/or take any action, including, but not limited to, legal action, regarding the proposal or awards process in general may result in the applicant's proposal being eliminated from award consideration. If the applicant has already received an award, the award(s) may be revoked at the discretion of the MSF

Board. However, this paragraph should not be construed in a manner that would prevent an applicant from taking action, including legal, to protect any rights bestowed on the applicant in the actual award agreement negotiated with successful applicants.

I. Due Diligence

Prior to the disbursement of an award, the MEDC and the Office of the Chief Compliance Officer will conduct due diligence on the awardee, including, but not limited to, criminal and civil background checks of the applicant, and review of the applicant's organizational documentation and financial information. The background checks will include, but not be limited to, affiliates, subsidiaries, officers, directors and managerial employees. To facilitate these background checks, applicants will be required to provide the complete names, addresses, and birthdates of all persons for whom a background check will be conducted prior to the execution of an award agreement. All items must be submitted by **within two weeks of announcement of awards by the MSF.** If due diligence items are not submitted **within two weeks of announcement of awards,** the MSF Board reserves the right to rescind the award.

The following information will be required of the awardee. All items must be timely submitted and deemed satisfactory prior to the release of any award funds.

Individuals and Entities

Please immediately provide us the following information regarding your project and business entity.

Individuals: First, Middle, and Last Name for:

- Primary Contact
- Each Company Officer
- Each Company Director
- Each Management Employee

Entities (in addition to information on Individuals noted above):

- Legal Entity Name, Entity Location, and State and/or Country of Incorporation for:
- Applicant Business
- Each Affiliate of Applicant Business
- Each Subsidiary of Applicant Business
- If the Applicant Business conducts business with foreign countries, please list such countries.

Organization Registration:

To receive payment from the State of Michigan, Public Act 533 of 2004 requires that awardees be registered in the State of Michigan Vendor/Payee System, **and must** authorize payments to be made via electronic funds transfer (EFT). No awards will be finalized nor payments authorized until the required registration and authorization is complete.

If you have not registered with the State of Michigan, please initiate the process to do so. If you have already registered with the State of Michigan, please verify and update your information. If you have not authorized EFT payment, please initiate the process to do so.

Access the Vendor/Payee System, Contracts and Payment Express at www.michigan.gov/cpexpress. To speak with Vendor/Payee System staff for assistance, call (517) 373-6222. REGISTRATION MUST BE COMPLETE AND UPDATED IN ORDER TO RECEIVE PAYMENT.

Financial and Legal Documents:

Corporate Records, including but not limited to:

- Articles of Incorporation/Organization and Bylaws/Operating Agreement of the Company, as amended to date
- Certificate of Good Standing
- A copy of the most current organizational chart available for the Company, including all entities or investments in which the Company owns less than a 100% interest

Other Documents:

Copies of tax liens
Description of all pending or threatened litigation and unsatisfied judgments
Documents relating to any injunctions, consent decrees, or settlements to which the Company is a party

Submit a Disclosure and Conflict of Interest Statement. The Statement may be viewed by visiting www.michiganadvantage.org/MichiganVentureMatchFund.

List of all State of Michigan awards

MICHIGAN STRATEGIC FUND

PROPOSED RESOLUTION 2012-

APPROVAL OF MICHIGAN VENTURE MATCH FUND

WHEREAS, Public Acts 215 and 225 of 2005 established the 21st Century Jobs Trust Fund initiative;

WHEREAS, MCL 125.2088k created the Strategic Economic Investment and Commercialization Board ("SEIC Board") for the purposes of awarding grants and loans for basic research, applied research, university technology transfer, and commercialization of products, processes and services to encourage the development of competitive edge technologies to create jobs within the State of Michigan;

WHEREAS, pursuant to Executive Order 2010-8, the Governor ordered the SEIC Board abolished and all powers, duties, and functions of the SEIC Board transferred to the Michigan Strategic Fund ("MSF"), including those powers, duties, and functions provided under MCL 125.2088k;

WHEREAS, the Michigan Economic Development Corporation provides administrative services for the Michigan Strategic Fund ("MSF") for 21st Century Jobs Fund programs ("21CJF Programs");

WHEREAS, the MSF desires to create the Michigan Venture Match Fund ("MVM Fund") to make matching investments in for-profit companies that have secured additional venture investments from qualified venture funds;

WHEREAS, the MSF has reviewed proposed guidelines and process for the MVM Fund ("MVM Fund Program Guidelines"), which includes provisions required by MCL 125.2088k and establishes a competitive proposal process for making awards to for-profit companies that have secured additional venture investments from qualified venture funds. The MVM Fund Program Guidelines are attached to this Resolution; and

WHEREAS, the MSF desires to initiate the competitive process to make awards to for-profit companies under the MVM Fund.

NOW, THEREFORE, BE IT RESOLVED, that the MSF approves the attached MVM Fund Guidelines and authorizes implementation of the MVM Fund; and

BE IT FURTHER RESOLVED, that the MSF authorizes the MSF Fund Manager to modify the MVM Fund Guidelines as may be necessary or appropriate, if the modifications are not materially adverse to the interests of the MSF; and

BE IT FURTHER RESOLVED, the MSF delegates to the MSF President, the MSF Fund Manager, and the State Treasurer Director, with only one required to act, the authority to approve awards from the MVM Fund upon the recommendation of independent peer review experts and to negotiate and execute final documents on behalf of the MSF, subject to standard due diligence and the availability of funds.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

NOTICE OF PUBLIC HEARING

On February 8, 2012, the Michigan Strategic Fund Board ("MSF Board") will hold a public hearing with respect to the attached proposed resolution of the MSF Board approving changes to the 21st Century Jobs Fund initiative program for fiscal year 2012. The proposed resolution seeks to establish a Michigan Venture Match Fund.

The hearing will commence at 10:00 a.m. and will be held in the Lake Superior Conference Room of the Michigan Economic Development Corporation ("MEDC") located at 300 North Washington Square, Lansing, Michigan 48913. Interested persons wishing to express any data, views or arguments regarding the Proposed Resolution will be given an opportunity to do so at the public hearing. Written comments will be accepted by the MSF Board at Michigan Strategic Fund Board, c/o Mike Psarouthakis, 300 North Washington Square, Lansing, MI 48913, or electronically to 21stCenturyJobs@michigan.org, but must be mailed or electronically transmitted on or before the date and time of the hearing.

This hearing will provide a reasonable opportunity for interested persons to express their views, both orally and in writing, on the Proposed Resolution.

The MEDC will provide necessary reasonable accommodation upon seven (7) days' notice to the MEDC. Individuals with disabilities needing a reasonable accommodation to effectively participate in this public hearing should contact MEDC by writing or calling the person listed below.

Dated: January 25, 2012

Ellen Graham
Michigan Strategic Fund Board
300 North Washington Square
Lansing, Michigan 48913
(517) 241-2244

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

MICHIGAN VENTURE MATCH FUND
NOTICE OF PUBLIC HEARING

WHEREAS, Public Acts 215 and 225 of 2005 ("Act") established the 21st Century Jobs Trust Fund initiative;

WHEREAS, MCL 125.2088k created the Strategic Economic Investment and Commercialization Board ("SEIC Board") for the purposes of awarding grants and loans for basic research, applied research, university technology transfer, and commercialization of products, processes and services to encourage the development of competitive edge technologies to create jobs within the State of Michigan;

WHEREAS, pursuant to Executive Order 2010-8, the Governor ordered the SEIC Board abolished and all powers, duties, and functions of the SEIC Board transferred to the Michigan Strategic Fund ("MSF"), including those powers, duties, and functions provided under MCL 125.2088k;

WHEREAS, pursuant to MCL 125.2088k(8), prior to adopting the attached proposed resolution that would approve the creation and operation of the Michigan Venture Match Fund ("MVM Fund") to make matching investments in for-profit companies that have secured additional venture investments from qualified venture funds, the MSF Board shall hold a public hearing that provides an opportunity for public comment;

WHEREAS, the MSF desires to hold a public hearing with respect to the Proposed Resolution and the MVM Fund on February 8, 2012 to offer persons an opportunity to present data, views, questions and arguments; and

WHEREAS, the MSF desires to approve the Notice of Public Hearing and to authorize Mike Psarouthakis to be present at the hearing and participate in the public discussion regarding the Proposed Resolution and the MVM Fund.

NOW, THEREFORE, BE IT RESOLVED, that Mike Psarouthakis is authorized to publish the attached Notice implementing the requirements of MCL 125.2088k(8);

BE IT FURTHER RESOLVED, that the MSF designates Mike Psarouthakis to be present at the public hearing and participate in the public discussion of the Proposed Resolution and the MVM Fund; and

BE IT FURTHER RESOLVED, pursuant to MCL 125.2088k(8), that no sooner than 14 days after the public hearing, the MSF intends to adopt a final resolution implementing changes to the 21st Century Jobs Fund program by approving the MVM Fund.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MEMORANDUM

Date: January 25, 2012

To: Michigan Strategic Fund Board

From: Eric Hanna, Director Debt Capital Programs

SUBJECT: Capital Conduit Program – Real Estate Initiative – Award to Develop Michigan Inc.

BACKGROUND

On May 20, 2009 the Michigan Strategic Fund ("MSF") approved the creation and operation of the Michigan Supplier Diversification Fund ("MSDF") under MCL 125.2088d(1). On December 21, 2011 the MSF Board created the Capital Conduit Program ("CCP") as part of the MSDF and funded the CCP with $7.5 million from the Jobs for Michigan investment fund ("Investment Fund"). As a component of the CCP, the MSF Board created the Real Estate Initiative ("REI"), approved REI program guidelines and delegated to the MSF Fund Manager the authority to create and execute a process for selection of a candidate under the REI. Appendix 1 provides a graphic representation of the programs currently operating under MCL 125.2088d(1).

PURPOSE OF THE REAL ESTATE INITIATIVE

This initiative was developed after a 2008 study of the Michigan banking environment identified a material weakness which exists in nearly all capital markets and which has been addressed successfully in a number of other states. The weakness addresses the profitability and complexity of assembling capital and driving redevelopment of large repositioning projects most common in very large urban markets or very small rural markets. The nature of these markets makes large projects which are not diverse and which require large amounts of capital exceptionally risky and therefore most private developers forego them in favor of other less risky opportunities.

This initiative strives to emulate the best practices of other states in forming a public private partnership which consists at all levels including leadership, management and capital contributed. The public capital tends to bear more risk than private capital but the private capital position is sufficient to drive project selection toward profitable projects which can still achieve very meaningful public sector objectives.

DESIGNATION OF DEVELOP MICHIGAN PROPOSAL

The MSF Fund Manager was delegated the authority to develop, approve, and implement a process for selecting a candidate application which consists in this case of a Michigan non-profit corporation with a subsidiary for profit private equity fund. The Request for Application ("RFA") was open for submissions beginning December 22, 2011. Applications were due January 12, 2012 by 5PM. Due to the complexity of the project and the difficulty in raising capital for such an undertaking few applications were expected.

One application was received from Develop Michigan, Inc., a newly formed Michigan non-profit corporation ("DMI"). The application was prepared on behalf of DMI by the Great Lakes Capital Fund ("GLCF") and Development Finance Group ("DFG"). DMI meets all the requirements contemplated under the RFA and is the proposed borrower under the loan commitment recommended in this memo. The Board of Directors of DMI will consist of three investor appointees, three appointees of the GLCF, and three appointees of the Michigan Strategic Fund. The Joint Evaluation Committee believes that the companies who participated in the organization and application of DMI are highly capable. Those entities are briefly described below.

GLCF is a non-profit manager of a group of funds and companies whose activities involve both economic and community redevelopment financing using equity, debt, and various tax credits. GLCF also has a subsidiary Community Development Finance Institution. GLCF has more than 20 private equity funds raised and deployed over its 18 year history. It began as an offshoot of the Michigan State Housing Development Authority and now acts as a private non-profit manager of capital.

DFG is a consultancy practice which has collectively participated in the formation of no less than 15 development finance organizations of similar character and capacity in states across the US. DFG has further participated in raising 22 triple bottom line private equity funds, 31 technology commercialization and venture capital funds, and 18 pension and sovereign trust funds. They have participated in the formation of some of the highest performing public/private finance partnerships in the US going back over 30 years.

Management Relationship
DFG and GLCF proposed to enter into a partnership management structure which will essentially act at the pleasure of the DMI Board of Directors. DFG will be responsible for the majority of organizational, governance, fundraising and budgeting/marketing for this effort. GLCF will then be responsible for the development of pipeline projects, coordinating project priorities and doing transactional underwriting, documenting, marketing and closing of various tranches of capital for various projects. Eventually DFG will phase out its involvement over time, eventually transitioning the full management of those activities to GLCF. Appendix 2, which was provided to the MSF Board at its December 21, 2011 meeting, details the proposed structure of DMI.

<u>CONTEMPLATED MSF CAPITAL COMMITMENT</u>
The below recommendations contemplate an initial extension of credit by the MSF in the amount of $5.0M with distributions limited until the organization begins its lending and investing operations. In the "best practice" examples we have reviewed the public capital is scaled to private sector capital participation. While asking for no further commitment by the MSF at this time, it is contemplated that increases to the proposed line of credit will be requested on the following schedule depending on the success DMI has at raising private sector equity capital.

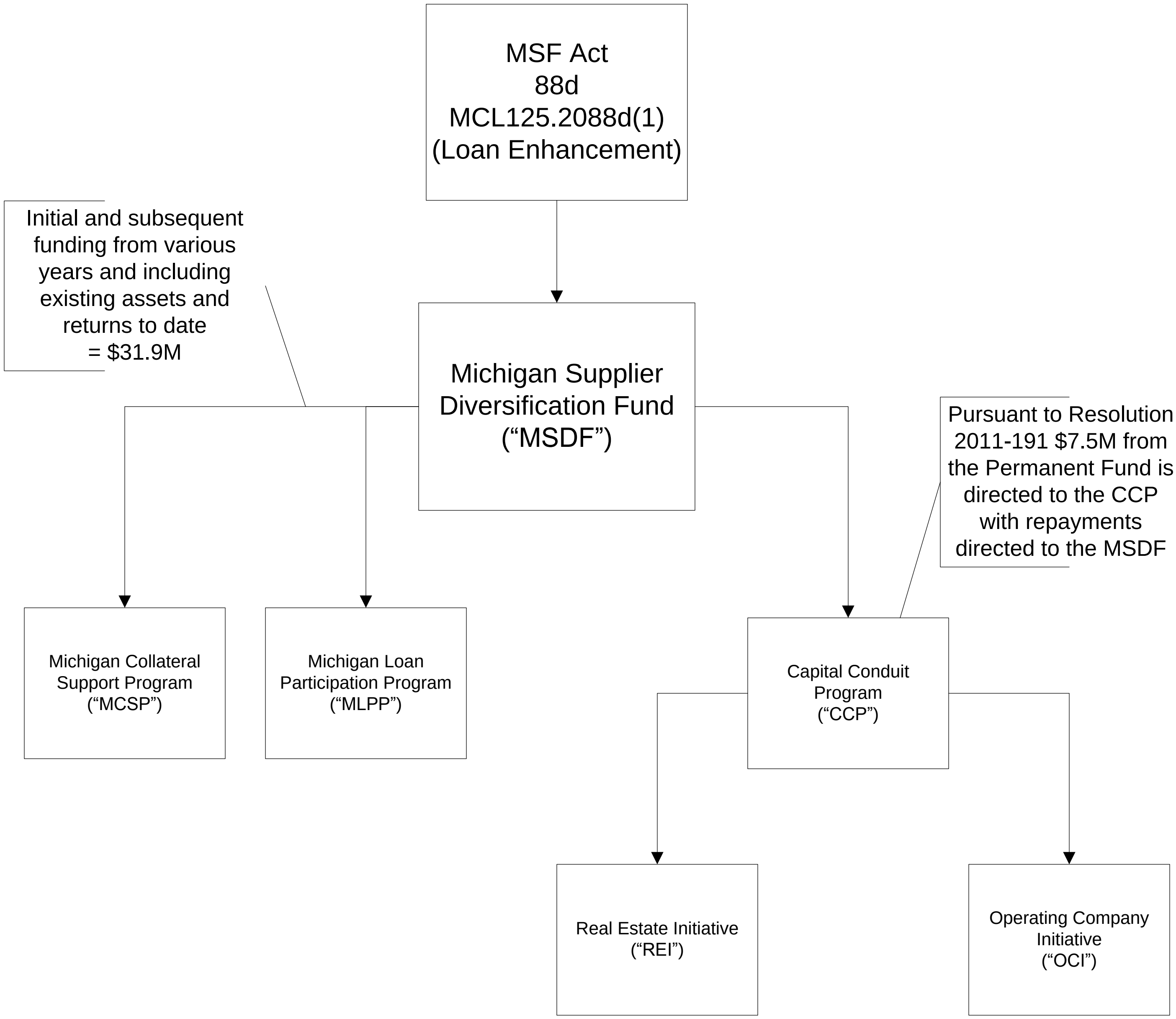
Line limit increased to $10.0M	$30 Million Private Sector Capital
Line limit increased to $15.0M	$45 Million Private Sector Capital
Line limit increased to $20.0M	$60 Million Private Sector Capital

<u>RECOMMENDATION OF FUNDING, LOAN TERMS AND CONDITIONS</u>

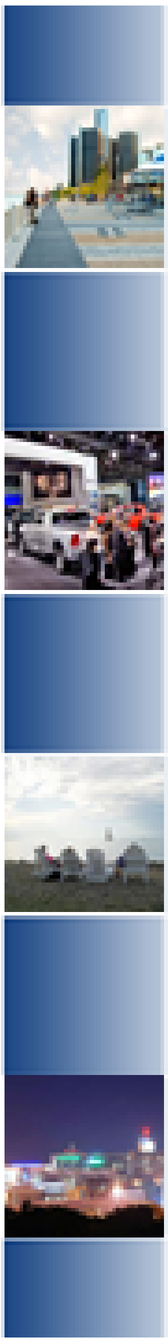
- Staff recommends the award of a line of credit to DMI in the initial amount of $5,000,000, subject to the terms and conditions outlined in Appendix 3.

- Staff further recommends that the MSF delegate to the MSF Fund Manager the authority to modify and include any additional conditions to the award, which he in his sole discretion feels are necessary and appropriate.

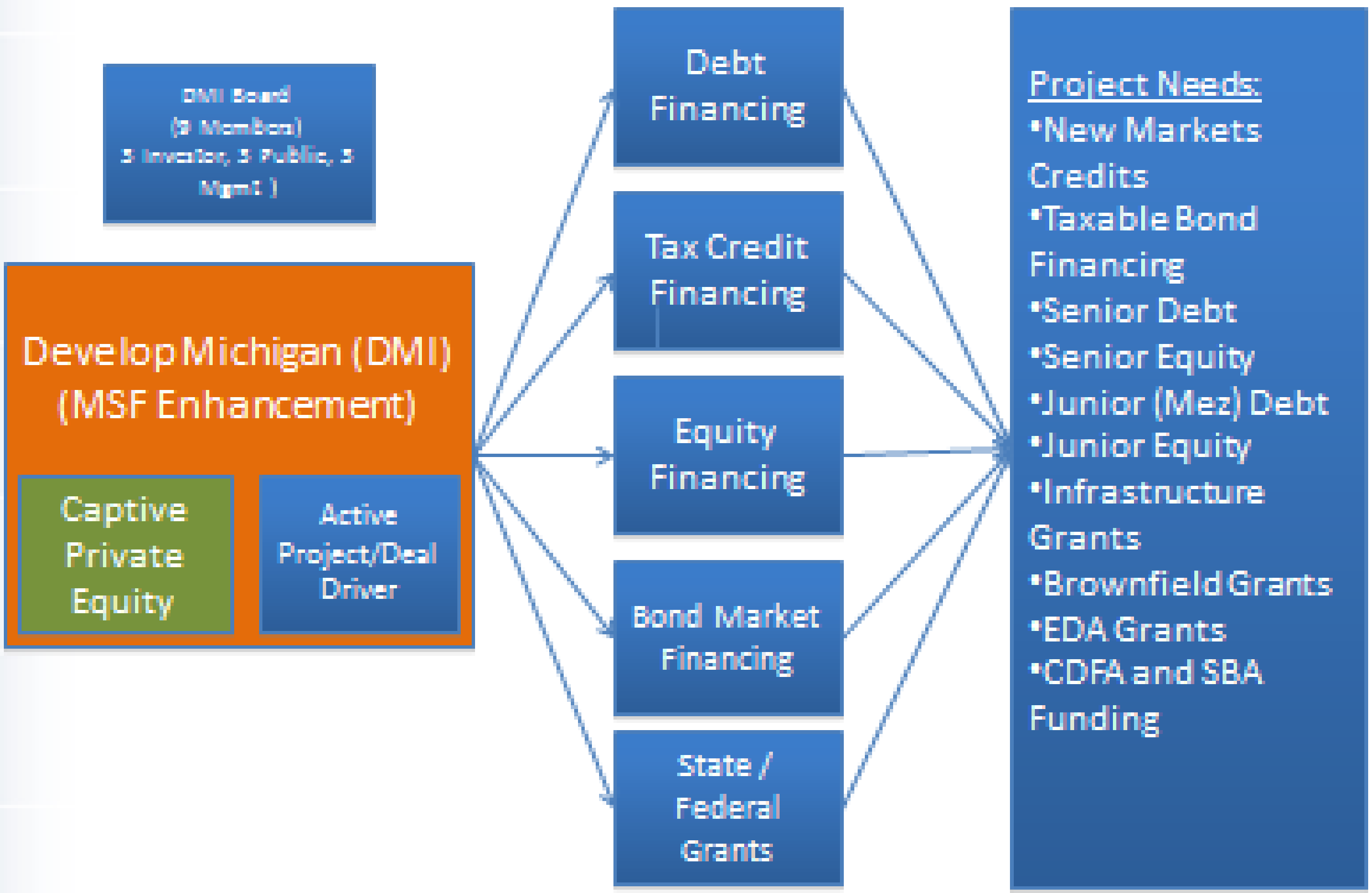
- Staff also recommends that the MSF Board delegate to the Chairperson of the MSF, the MSF Fund Manager or State Treasurer Director, with only two required to act, the authority to negotiate and approve all final award terms and to execute all the necessary documents arising out of this transaction.



<u>Note:</u> The State Small Business Credit Initiative (“SSBIC”) falls under the “General Powers” of the MSF. While it runs the CSP and LPP programs using this federal money, it is not part of the MSDF.



Real Estate Initiative



Appendix 3

Develop Michigan, Inc. Loan Terms and Conditions

Loan Line of Credit Amount:		$5,000,000		
Initial Draw:	Limited to	$500,000		
Subsequent Draws:		$501,000-$5,000,000 may occur provided the use of funds is exclusively for providing a credit enhancement to an eligible project or group of projects or program developed by DMI which will enroll eligible projects.		
Interest rate:	Up to	$500,000	0.0%	
	In excess of	$500,000	.25%	Reviewed Annually
Term of Loan:		120 Months from Closing		
Maturity and Renewal:		Renewals will be for 10 years. After 10 years the MSF may either renew for an additional 10 years or shall renew annually so long as non-MSF Credit Risk via other extensions of credit relies on MSF Capital. At such time after 10 years where no non-MSF Credit Risk is reliant on MSF capital, the MSF may call the line due and payable.		
Purpose of Loan:		Loan shall be used to provide credit enhancement to private capital (internal or external) for projects approved by the DMI and up to $500,000 may be used to fund early formation and capitalization costs.		
Project Locations:		Projects funded by DMI shall involve the redevelopment of real property located within the State of Michigan. DMI shall target markets underserved by traditional capital sources.		
Increase Requirement:		Prior to a request to increase the Line of Credit beyond $5.0M DMI must demonstrate that it has written commitments with or without conditions from capital sources in amounts equal to or in excess of twice the final and resulting balance of the MSF Line of credit after the requested increase. (MSF capital will represent 1/3d of total capital or a 2:1 match).		
Best Practices Requirement:		DMI must certify and represent that it is utilizing the best practices identified in		

similar institutions across the US to drive performance and manage moral hazard.

Management Team Capital:	DMI must represent that 1% of the total capital at risk is provided by the Management Team (collectively) upon closing of this loan agreement. The formula for calculating the total contribution from management shall be: **Total Drawn from MSF Line * .01= Commitment required to be maintained.**
Board of Directors Condition:	DMI shall provide for three direct appointments to its Board of Directors by the Michigan Strategic Fund Board. At least one appointment shall participate in board activity prior to the formation of the full and permanent Board of Directors.
Reporting Requirement:	DMI shall provide the following information to the Michigan Strategic Fund Board. 1. **Status Report on DMI Accomplishments** 2. **Results of Financial Audit annually.** 3. **Portfolio report describing relative risk of all assets.** 4. **Planning report for future activities** 5. **Transactional Impact Reports (further described in the loan agreement)** 6. **Other data that may be requested by the MSF from time to time.**
Additional Conditions:	The MSF Fund Manager may include additional conditions as may be necessary and appropriate

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

SELECTION TO AWARD FOR REAL ESTATE INITIATIVE UNDER THE DEVELOP MICHIGAN – CAPITAL CONDUIT PROGRAM

WHEREAS, the Michigan legislature passes legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law by Governor Jennifer M. Granholm;

WHEREAS, the Michigan Economic Development Corporation ("MEDC") provides administrative services for the Michigan Strategic Fund ("MSF") for 21st Century Jobs Fund programs;

WHEREAS, pursuant to MCL 125.2088d(1), the MSF shall create and operate a loan enhancement program;

WHEREAS, on May 20, 2009, the MSF approved the creation and operation of the Michigan Supplier Diversification Fund ("MSDF") as a loan enhancement program;

WHEREAS, on May 20, 2009, the MSF approved the creation and operation of the Michigan Loan Participation Program under the MSDF, and on June 24, 2009, the MSF approved the creation and operation of the Michigan Collateral Support Program under the MSDF;

WHEREAS, on December 21, 2011, the MSF approved the creation and operation of a Develop Michigan – Capital Conduit Program under the MSDF ("CCP");

WHEREAS, as a subprogram of the CCP, the MSF also approved the Real Estate Initiative ("REI") and the program guidelines for the REI ("REI Guidelines");

WHEREAS, pursuant to Section 125.2005(7) of the Act, the MSF Board delegated to the MSF Fund Manager the authority to make all decisions to develop and finalize an REI application form and overall process to operate the REI, each in accordance with the REI Guidelines ("Delegation of Authority for the REI Application and Process");

WHEREAS, consistent with the Delegation of Authority for the REI Application and Process, the MSF Fund Manager approved an application submission process, appointed a Joint Evaluation Committee ("JEC") and adopted scoring and evaluation criteria to be used by the JEC in reviewing proposals received under the REI (collectively, the "REI Application Process");

WHEREAS, the JEC received one application, submitted by Develop Michigan, Inc. ("DMI"), seeking an award under the REI (the "DMI Application");

WHEREAS, the JEC reviewed the DMI Application in accordance with the REI Guidelines and the REI Application Process and determined that the DMI Application satisfied the requirements of the REI, including all statutory requirements and the REI Guidelines;

WHEREAS, the JEC recommends that DMI receive an award in the amount of $5 million, subject to the terms and conditions contained in Exhibit A ("DMI Award");

WHEREAS, the MEDC recommends that MSF Board delegate to the MSF Fund Manager the authority to require additional terms and conditions on the DMI Award which may be necessary and appropriate and that the MSF Board delegate to the MSF Fund Manager, the MSF Chairperson, or the State Treasurer Director, with only two required to act, the authority to negotiate and approve all final award terms and to execute all the necessary documents arising out of the DMI Award ("Delegation of Authority"); and

WHEREAS, the MSF Board desires to approve the DMI Award and the Delegation of Authority.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the DMI Award and the Delegation of Authority.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

Exhibit A

Develop Michigan, Inc. Loan Terms and Conditions

Loan Line of Credit Amount:	$5,000,000
Initial Draw:	Limited to $500,000
Subsequent Draws:	$501,000-$5,000,000 may occur provided the use of funds is exclusively for providing a credit enhancement to an eligible project or group of projects or program developed by DMI which will enroll eligible projects.
Interest rate:	Up to $500,000 0.0% In excess of $500,000 .25% Reviewed Annually
Term of Loan:	120 Months from Closing
Maturity and Renewal:	Renewals will be for 10 years. After 10 years the MSF may either renew for an additional 10 years or shall renew annually so long as non-MSF Credit Risk via other extensions of credit relies on MSF Capital. At such time after 10 years where no non-MSF Credit Risk is reliant on MSF capital, the MSF may call the line due and payable.
Purpose of Loan:	Loan shall be used to provide credit enhancement to private capital (internal or external) for projects approved by the DMI and up to $500,000 may be used to fund early formation and capitalization costs.
Project Locations:	Projects funded by DMI shall involve the redevelopment of real property located within the State of Michigan. DMI shall target markets underserved by traditional capital sources.
Increase Requirement:	Prior to a request to increase the Line of Credit beyond $5.0M DMI must demonstrate that it has written commitments with or without conditions from capital sources in amounts equal to or in excess of twice the final and resulting balance of the MSF Line of credit after the requested increase. (MSF capital will represent 1/3d of total capital or a 2:1 match).
Best Practices Requirement:	DMI must certify and represent that it is utilizing the best practices identified in similar institutions across the US to drive performance and manage moral hazard.

Management Team Capital:	DMI must represent that 1% of the total capital at risk is provided by the Management Team (collectively) upon closing of this loan agreement. The formula for calculating the total contribution from management shall be: **Total Drawn from MSF Line * .01= Commitment required to be maintained.**
Board of Directors Condition:	DMI shall provide for three direct appointments to its Board of Directors by the Michigan Strategic Fund Board. At least one appointment shall participate in board activity prior to the formation of the full and permanent Board of Directors.
Reporting Requirement:	DMI shall provide the following information to the Michigan Strategic Fund Board. 1. **Status Report on DMI Accomplishments** 2. **Results of Financial Audit annually.** 3. **Portfolio report describing relative risk of all assets.** 4. **Planning report for future activities** 5. **Transactional Impact Reports (further described in the loan agreement)** 6. **Other data that may be requested by the MSF from time to time.**
Additional Conditions:	The MSF Fund Manager may modify these conditions and include additional conditions as may be necessary and appropriate.

MEMORANDUM

Date: January 25, 2012

To: Michigan Strategic Fund Board

From: Eric Hanna, Director Debt Capital Programs

SUBJECT: Capital Conduit Program – Operating Company Initiative – Award to Grow Michigan LLC

BACKGROUND

On May 20, 2009 the Michigan Strategic Fund ("MSF") approved the creation and operation of the Michigan Supplier Diversification Fund ("MSDF") under MCL 125.2088d(1). On December 21, 2011 the MSF created the Capital Conduit Program ("CCP") as part of the MSDF and funded the CCP with $7.5 million from the Jobs for Michigan investment fund ("Investment Fund"). As a component of the CCP, the MSF Board also created the Operating Company Initiative ("OCI"), approved OCI program guidelines and delegated to the MSF Fund Manager the authority to create and execute a process for selection of a candidate under the OCI. Appendix 1 is a graphic representation of the programs currently operating under MCL 125.2088d(1).

PURPOSE OF THE OPERATING COMPANY INITIATIVE

This OCI was developed after a 2008 study of the Michigan banking environment identified a material weakness which exists in nearly all capital markets and which has been addressed successfully in a number of other states. The weakness addresses the need for growth capital, succession and acquisition financing and balance sheet reconfiguration capital for small operating companies. Used here small is defined as having revenues generally under $50M per year and a "mezzanine" style capital need between $2.0M and $6.0M approximately.

This initiative strives to emulate the best practices of other states in forming a public private partnership which consists at all levels including leadership, management and capital contributed. The public capital tends to bear more risk than private capital but the private capital position is sufficient to drive project selection toward profitable projects which can still achieve very meaningful public sector objectives.

The result should be both excellent returns for investors and another stable source of risk capital to important job creating companies in Michigan which does not exist at this time.

DESIGNATION OF GROW MICHIGAN LLC PROPOSAL

The MSF Fund Manager was delegated the authority to develop, approve, and implement a process for selecting a candidate application which consists in this case of a Michigan for-profit corporation The Request for Application ("RFA") was open for submissions beginning December 22, 2011. Applications were due January 12, 2012 by 5PM. Due to the complexity of the project and the difficulty in raising capital for such an undertaking few applications were expected.

One application was from Grow Michigan LLC, a newly formed Michigan limited liability company ("Grow Michigan"). The proposal contemplated a public private partnership which will have an initial capitalization between $30 million and $50 million. Grow Michigan will seek out opportunities to provide 'junior debt' or mezzanine capital to companies with solid potential for growth and that have the capacity to increase employment and capital investment. Grow Michigan will seek out these opportunities at the low end of the loan/investment size in line with the intent of the OCI.

The application was assembled and submitted by a group of individuals who bring superb talent and deep Michigan market knowledge to the proposal. Headed by Russell Youngdahl, the team has extremely deep knowledge and experience in the areas of business turnaround, growth capital investing, transactional loan and investment work as well as over 40 years of commercial lending experience in the middle market. This group of individuals is collectively referred to herein as "Incorporators."

The Incorporators have partnered with a three-firm consortium of consultants (known as the "Development Finance Group" or "DFG") who have collectively participated in the formation of no less than 15 development finance organizations of similar character and capacity in states across the US. DFG has further participated in raising 22 triple bottom line private equity funds, 31 technology commercialization and venture capital funds, and 18 pension and sovereign trust funds.

The incorporators have retained DFG to assist with and facilitate the majority of organizational, governance, fundraising, and management selection solicitation for this effort. Incorporators will be working with DFG and supporting the national management selection process, the development of pipeline projects, the coordination of project priorities and participate in marketing and fundraising activities. Eventually DFG will phase out its involvement over time transitioning the full management of those activities to the management team selected by the formation Board of Directors as a product of the national solicitation. Appendix 2, which was provided to the MSF Board at its December 21, 2011 meeting, details the proposed structure of Grow Michigan, LLC.

CONTEMPLATED MSF CAPITAL COMMITMENT

The below recommendations contemplate an initial extension of credit by the MSF in the amount of $2.5M with distributions limited until the organization begins its lending and investing operations. In the "best practice" examples we have reviewed the public capital is scaled to private sector capital participation. While asking for no further commitment at this time, it is contemplated that increases to the proposed line of credit will be requested on the following schedule depending on the success the applicant has at raising private sector equity capital.

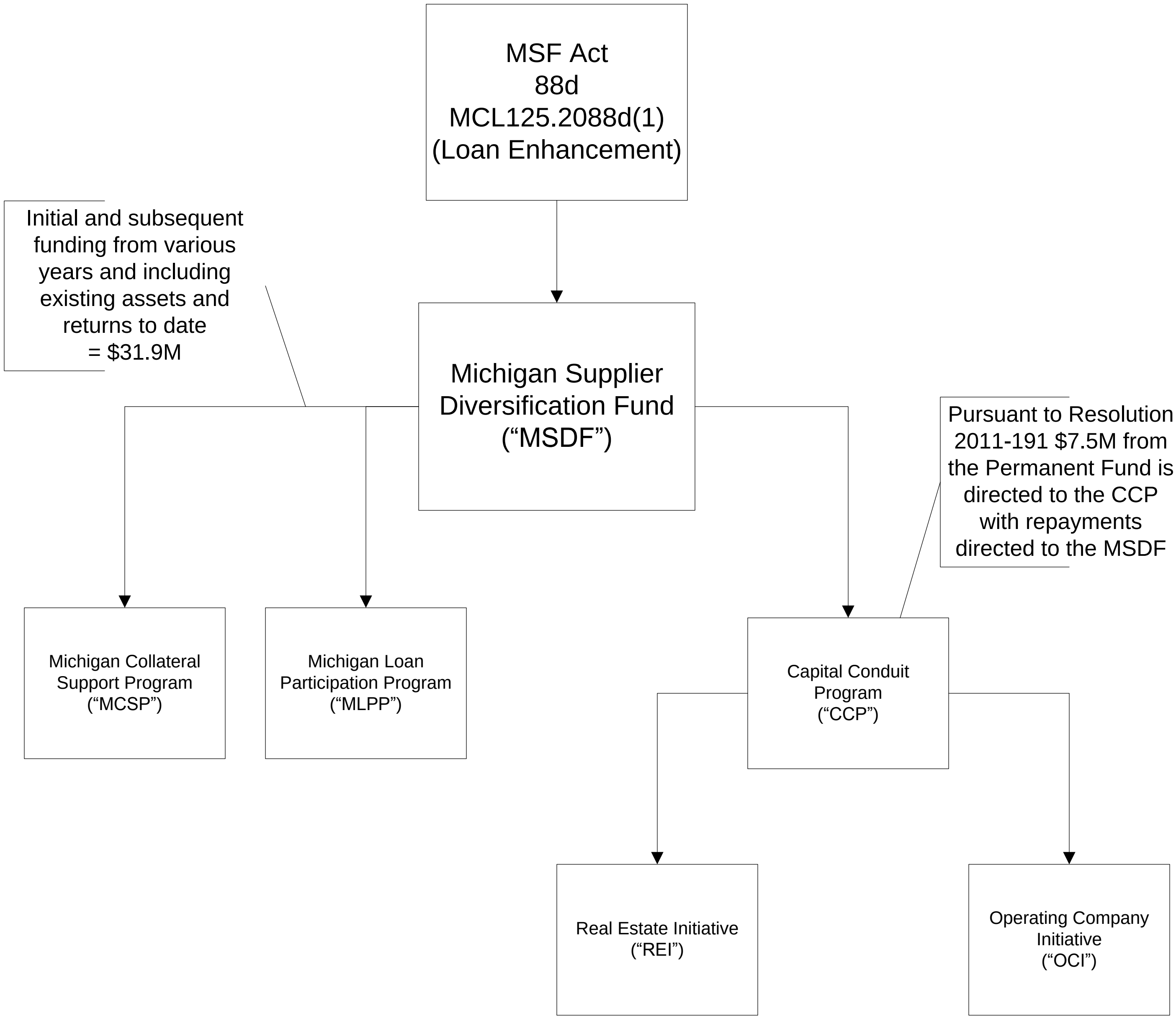
Line limit increased to $5.0M	$20 Million Private Sector Capital
Line limit increased to $7.5M	$35 Million Private Sector Capital
Line limit increased to $10.0M	$50 Million Private Sector Capital

RECOMMENDATION

- Staff recommends that the MSF award a line of credit to Grow Michigan, LLC in the initial amount of $2.5 million, subject to the terms and conditions contained in Appendix 3.

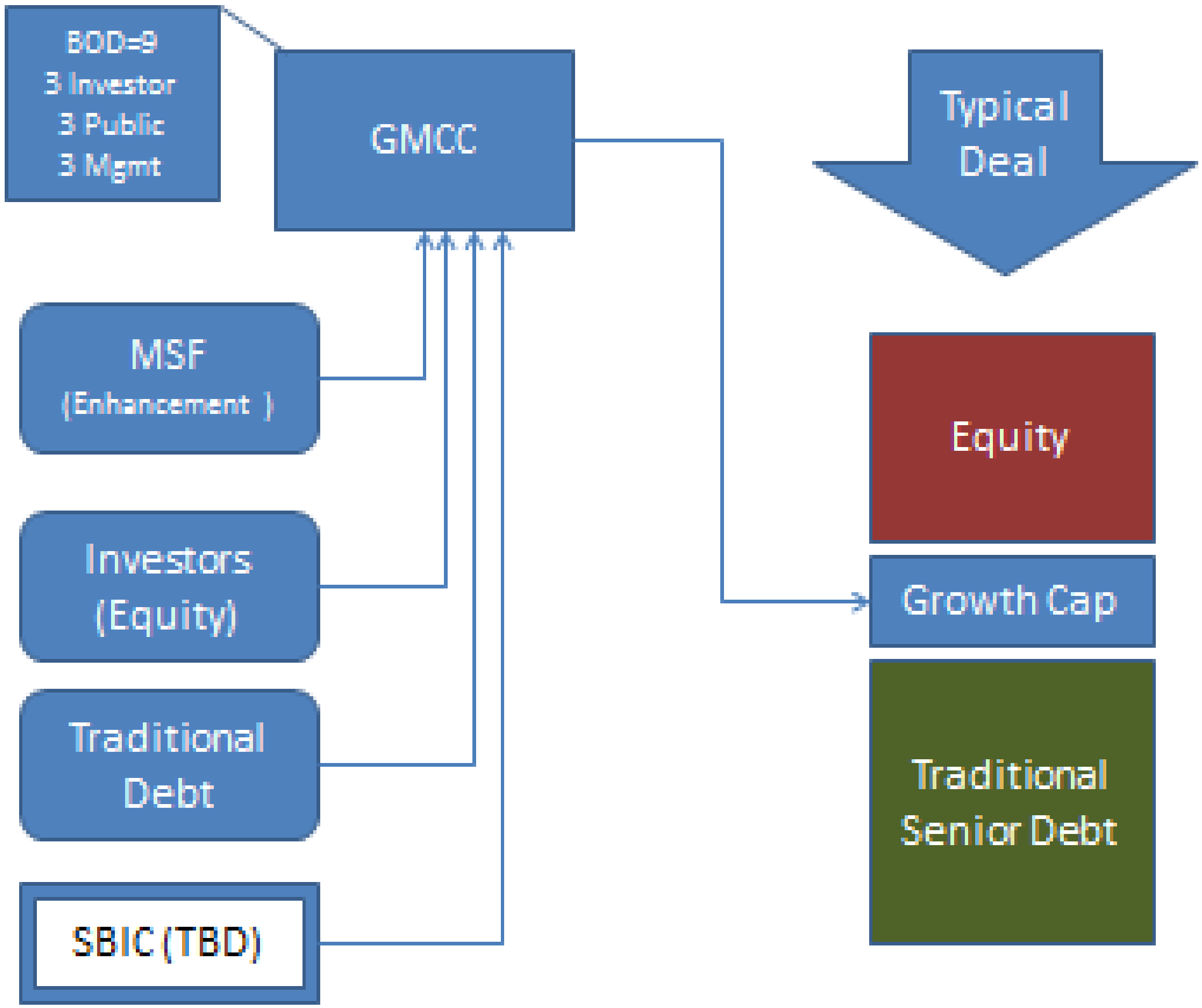
- Staff further recommends that the MSF Fund Manager be delegated the authority to modify and include any additional conditions on the award, which he in his sole discretion determines are necessary and appropriate.

- Staff also recommends that the MSF Board delegate to the Chairperson of the MSF, the MSF Fund Manager or State Treasurer Director, with only two required to act, the authority to negotiate and approve all final award terms and to execute all the necessary documents arising out of this transaction.



Note: The State Small Business Credit Initiative (“SSBIC”) falls under the “General Powers” of the MSF. While it runs the CSP and LPP programs using this federal money, it is not part of the MSDF.

Grow Michigan Capital Corporation



Appendix 3

Grow Michigan, LLC Loan Terms and Conditions

Loan Line of Credit Amount:		$2,500,000		
Initial Draw:	Limited to	$500,000		
Subsequent Draws:		$501,000-$2,500,000 may occur provided the use of funds is exclusively for providing a credit enhancement to an eligible project or group of projects or program developed by GM which will enroll eligible projects.		
Interest rate:	Up to	$500,000	0.0%	
	In excess of	$500,000	.25%	Reviewed Annually
Term of Loan:		120 Months from Closing		
Maturity and Renewal:		Renewals will be for 10 years. After 10 years the MSF may either renew for an additional 10 years or shall renew annually so long as non-MSF Credit Risk via other extensions of credit relies on MSF Capital. At such time after 10 years where no non-MSF Credit Risk is reliant on MSF capital, the MSF may call the line due and payable.		
Purpose of Loan:		Loan shall be used to provide credit enhancement to private capital (internal or external) for projects approved by the GM and up to $500,000 may be used to fund early formation and capitalization costs.		
Project Locations:		Projects funded by GM shall involve the redevelopment of real property located within the State of Michigan. GM shall target markets underserved by traditional capital sources.		
Increase Requirement:		Prior to a request to increase the Line of Credit beyond $2.5M GM must demonstrate that it has written commitments with or without conditions from capital sources in amounts equal to or in excess of twice the final and resulting balance of the MSF Line of credit after the requested increase. (MSF		

	capital will represent 1/3d of total capital or a 2:1 match).
Best Practices Requirement:	GM must certify and represent that it is utilizing the best practices identified in similar institutions across the US to drive performance and manage moral hazard.
Management Team Capital:	GM must represent that 1% of the total capital at risk is provided by the Management Team (collectively) upon closing of this loan agreement but no earlier than the retention of the management team by the Board of Directors. The formula for calculating the total contribution from management shall be: **Total Drawn from MSF Line * .01= Commitment required to be maintained.**
Board of Directors Condition:	GM shall provide for three direct appointments to its Board of Directors by the Michigan Strategic Fund Board. At least one appointment shall participate in board activity prior to the formation of the full and permanent Board of Directors.
Reporting Requirement:	GM shall provide the following information to the Michigan Strategic Fund Board. 1. **Status Report on GM Accomplishments** 2. **Results of Financial Audit annually.** 3. **Portfolio report describing relative risk of all assets.** 4. **Planning report for future activities** 5. **Transactional Impact Reports (further described in the loan agreement)** 6. **Other data that may be requested by the MSF from time to time.**
Conversion to Equity:	At the determination of the Michigan Strategic Fund Board, the Board may convert its loan exposure to common equity proportionate to the amount of overall capital which its drawn balance represents except that it may convert no more than 20% of its drawn balance in any fiscal year. Investors/Owners may alternatively choose to repay the borrowings with a premium to

	be determined between the MSF and Investor/Owners subsequent to the MSF's notice to convert. The MSF shall give 90 days' written notice.
Additional Conditions:	The MSF Fund Manager may modify these conditions and include additional conditions as may be necessary and appropriate

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

SELECTION OF AWARD FOR THE OPERATING COMPANY INITIATIVE UNDER THE DEVELOP MICHIGAN – CAPITAL CONDUIT PROGRAM

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law by Governor Jennifer M. Granholm;

WHEREAS, the Michigan Economic Development Corporation ("MEDC") provides administrative services for the Michigan Strategic Fund ("MSF") for 21st Century Jobs Fund programs;

WHEREAS, pursuant to MCL 125.2088d(1), the MSF shall create and operate a loan enhancement program;

WHEREAS, on May 20, 2009, the MSF approved the creation and operation of the Michigan Supplier Diversification Fund ("MSDF") as a loan enhancement program;

WHEREAS, on May 20, 2009, the MSF approved the creation and operation of the Michigan Loan Participation Program under the MSDF, and on June 24, 2009, the MSF approved the creation and operation of the Michigan Collateral Support Program under the MSDF;

WHEREAS, on December 21, 2011, the MSF approved the creation and operation of a Develop Michigan – Capital Conduit Program under the MSDF ("CCP");

WHEREAS, as a subprogram of the CCP, the MSF also approved the Operating Company Initiative ("OCI") and the program guidelines for the OCI ("OCI Guidelines");

WHEREAS, pursuant to Section 125.2005(7) of the Act, the MSF Board delegated to the MSF Fund Manager the authority to make all decisions to develop and finalize an OCI application form and overall process to operate the OCI, each in accordance with the OCI Guidelines ("Delegation of Authority for the OCI Application and Process");

WHEREAS, consistent with the Delegation of Authority for the OCI Application and Process, the MSF Fund Manager approved an application submission process, appointed a Joint Evaluation Committee ("JEC") and adopted scoring and evaluation criteria to be used by the JEC in reviewing proposals received under the OCI (collectively, the "OCI Application Process");

WHEREAS, the JEC received one application, submitted by Grow Michigan, LLC ("Grow Michigan"), seeking an award under the OCI (the "Grow Michigan Application");

WHEREAS, the JEC reviewed the Grow Michigan Application in accordance with the OCI Guidelines and the OCI Application Process and determined that the Grow Michigan Application satisfied the requirements of the OCI, including all statutory requirements and the OCI Guidelines;

WHEREAS, the JEC recommends that Grow Michigan receive an award in the amount of $2.5 million, subject to the terms and conditions contained in Exhibit A (“Grow Michigan Award”);

WHEREAS, the MEDC recommends that MSF Board delegate to the MSF Fund Manager the authority to require additional terms and conditions on the Grow Michigan Award which may be necessary and appropriate and that the MSF Board delegate to the MSF Fund Manager, the MSF Chairperson, or the State Treasurer Director, with only two required to act, the authority to negotiate and approve all final award terms and to execute all the necessary documents arising out of the Grow Michigan Award (“Delegation of Authority”); and

WHEREAS, the MSF Board desires to approve the Grow Michigan Award and the Delegation of Authority.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the DMI Award and the Delegation of Authority.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

Exhibit A

Grow Michigan, LLC Loan Terms and Conditions

Loan Line of Credit Amount:	$2,500,000
Initial Draw:	Limited to $500,000
Subsequent Draws:	$501,000-$2,500,000 may occur provided the use of funds is exclusively for providing a credit enhancement to an eligible project or group of projects or program developed by GM which will enroll eligible projects.
Interest rate:	Up to $500,000 0.0% In excess of $500,000 .25% Reviewed Annually
Term of Loan:	120 Months from Closing
Maturity and Renewal:	Renewals will be for 10 years. After 10 years the MSF may either renew for an additional 10 years or shall renew annually so long as non-MSF Credit Risk via other extensions of credit relies on MSF Capital. At such time after 10 years where no non-MSF Credit Risk is reliant on MSF capital, the MSF may call the line due and payable.
Purpose of Loan:	Loan shall be used to provide credit enhancement to private capital (internal or external) for projects approved by the GM and up to $500,000 may be used to fund early formation and capitalization costs.
Project Locations:	Projects funded by GM shall involve the redevelopment of real property located within the State of Michigan. GM shall target markets underserved by traditional capital sources.
Increase Requirement:	Prior to a request to increase the Line of Credit beyond $2.5M GM must demonstrate that it has written commitments with or without conditions from capital sources in amounts equal to or in excess of twice the final and resulting balance of the MSF Line of credit after the requested increase. (MSF capital will represent 1/3d of total capital or a 2:1 match).
Best Practices Requirement:	GM must certify and represent that it is utilizing the best practices identified in similar institutions across the US to drive performance and manage moral hazard.

Management Team Capital:

GM must represent that 1% of the total capital at risk is provided by the Management Team (collectively) upon closing of this loan agreement but no earlier than the retention of the management team by the Board of Directors. The formula for calculating the total contribution from management shall be:
Total Drawn from MSF Line * .01= Commitment required to be maintained.

Board of Directors Condition:

GM shall provide for three direct appointments to its Board of Directors by the Michigan Strategic Fund Board. At least one appointment shall participate in board activity prior to the formation of the full and permanent Board of Directors.

Reporting Requirement:

GM shall provide the following information to the Michigan Strategic Fund Board.

1. **Status Report on GM Accomplishments**
2. **Results of Financial Audit annually.**
3. **Portfolio report describing relative risk of all assets.**
4. **Planning report for future activities**
5. **Transactional Impact Reports (further described in the loan agreement)**
6. **Other data that may be requested by the MSF from time to time.**

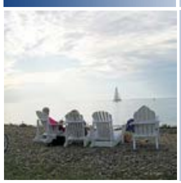
Conversion to Equity:

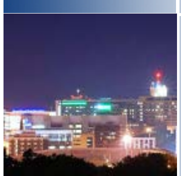
At the determination of the Michigan Strategic Fund Board, the Board may convert its loan exposure to common equity proportionate to the amount of overall capital which its drawn balance represents except that it may convert no more than 20% of its drawn balance in any fiscal year. Investors/Owners may alternatively choose to repay the borrowings with a premium to be determined between the MSF and Investor/Owners subsequent to the MSF's notice to convert. The MSF shall give 90 days' written notice.

Additional Conditions:

The MSF Fund Manager may modify these conditions and include additional conditions as may be necessary and appropriate

For Informational Purposes Only



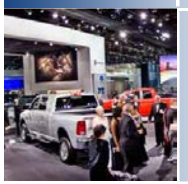
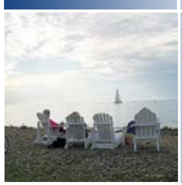
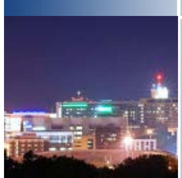


The Develop Michigan - Capital Conduit Program:

Real Estate Initiative
Operating Company Initiative

December 2011

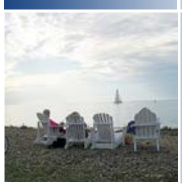
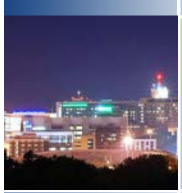
MSF Presentation

Real Estate Initiative

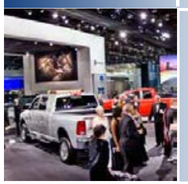
- Problem: Many critically important real estate redevelopment projects fail to assemble financing due to:
  - Lack of experience by the developer or community
  - Project economics don’t allow for sufficient developer profit to instigate the project or induce equity
  - Capital providers view larger projects as too highly concentrated and/or too risky to support
  - Market in which the project resides is deemed unstable and redevelopment requires long term commitment in stages making the timeframe for returns to long

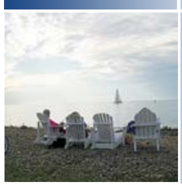


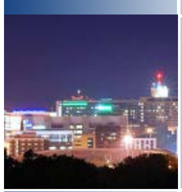



Real Estate Initiative

- Solution: Induce the development of an entity called **Develop Michigan** focused solely on large, triple bottom line community redevelopment finance activities and provide it with tools such as:
  - Close relationships to state and local governments allowing it to easily and quickly access public redevelopment finance tools (New Markets Credits, Brownfield Resources, Historic Credits, tax exempt financing)
  - Private sector project management talent
  - Credit enhancement to induce private capital contributions while maintaining market returns and diversification

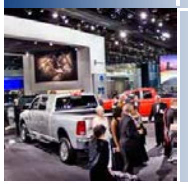


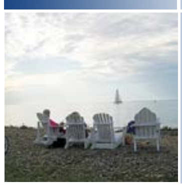


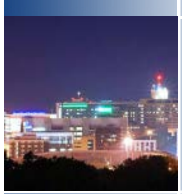


Real Estate Initiative: MSF Involvement

- Loan to DMI may:
  - Cover cost to assemble various other government and private sources of capital for a deal (“Stack Assembly”)
  - Act as a credit enhancement for Bond markets or Senior Debt markets (similar to Ohio Bond Fund model)
  - Act as a credit enhancement for Captive Private Equity
  - May be used as debt or equity in transactions depending on the demand
- Non-Profit / For Profit Sub structure adds value by allowing access to state and federal programs unavailable to “for-profit” institutions.
  - New Markets Tax Credits
  - Community Development Finance Agency Funds
  - SBA Funds
  - Commerce EDA Funds







Real Estate Initiative

DMI Board
(9 Members)
3 Investor, 3 Public, 3 Mgmt)

Develop Michigan (DMI)
(MSF Enhancement)

Captive Private Equity

Active Project/Deal Driver

Debt Financing

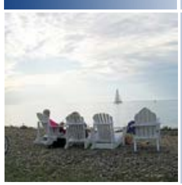
Tax Credit Financing

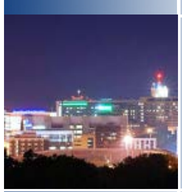
Equity Financing

Bond Market Financing

State / Federal Grants

<u>Project Needs:</u>
- New Markets Credits
- Taxable Bond Financing
- Senior Debt
- Senior Equity
- Junior (Mez) Debt
- Junior Equity
- Infrastructure Grants
- Brownfield Grants
- EDA Grants
- CDFA and SBA Funding





Real Estate Initiative:

About a Development Finance Organization

- Approximately 35 or more, including competing states: OH, IN, IL.
- Operate as powerful, large-scale, multi-dimensional development bank;
- Bring long-term, global debt capital to high impact local projects;
- Build or rebuild neighborhoods, cities and regions;
- Clean up and redevelop abandoned large-scale industrial sites and military bases;
- Finance large-scale, long term in-fill housing, affordable and mixed-income housing, and mixed-use development, often in combination or partnership with other public and private development capital funds

Real Estate Initiative: Examples

THE URBAN MARKET PROJECT

Grand Rapids

- 16-20 independent, owner operated businesses
- Fresh, local foods, including an onsite greenhouse
- Tasting rooms for Michigan wineries and beer makers complement restaurants

DAVID WHITNEY BUILDING REDEVELOPMENT

Detroit

- Historic Mixed use redevelopment including: retail, transit connections, a 125 room hotel, and 100 affordable 1 and 2 bedroom apartments

THE STADIUM DISTRICT

Midland

- Mixed-use infill development tailored to meet new Midland Downtown Northside Overlay District guidelines
- 230,265 square-foot, mixed-use building directly across from Dow Diamond Stadium

Sample Real Estate Project

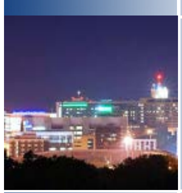
Sample Project: Repositioning of Vacant Manufacturing

Sources of Capital		Type
Senior Debt	$20	Debt
Captive Mez Debt	$15	Debt
Non-Captive Private Equity Mez Debt	$10	Debt
Taxible Bonds (MSF Enhanced)	$26	Debt
Developer Equity	$10	Equity
New Markets Equity	$12	Equity
US Dept Commerce EDA (Infrastructure)	$5	Grant
US BEDI (Brownfield)	$2	Grant
Total Project Cost	$100	

Before

After

- Develop Michigan (DMI) would source and arrange the entire stack of capital.
- The "Captive" Mez Debt would be capital DMI raised and injected.
- DMI would potentially enhance the Bonds.
- DMI would apply for and raise New Markets Tax Credits Equity.

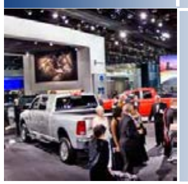
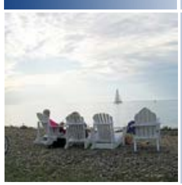
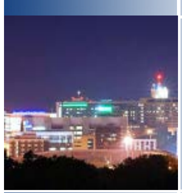


Real Estate Initiative: What DMI can do.

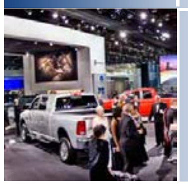
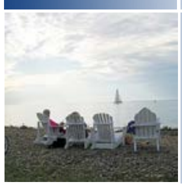
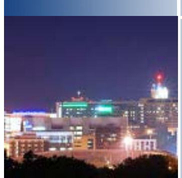
A Powerful, State-of-the-Art Development Finance Organization empowered to Help Transform Michigan's economic growth

- Actively and strategically initiates projects and 'pushes' them to finish line
- Mobilizes, structures and deploys debt financing (particularly bond financing) from global capital markets
- Redevelops large-scale former industrial and military sites for new use
- Can own and manage these large sites until repositioned
- Can develop major infill projects in distressed areas
- Can build turn-key facilities for universities, hospitals, or major employers
- Can manage and attract tenants for these large sites
- Secure alternative sources of funding (non-state government sources, tax credits, foundation dollars, energy incentives, and equity capital)
- Assess and manage the risks and assets
- Work with all appropriate private and public resources to maximize benefit
- Measure and report impacts

Real Estate Initiative: Captive Private Equity

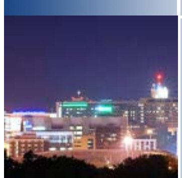





- Manager: TBD Application Process
- $25m (first close) to $75 million in commingled pooled fund
- Flexibility to provide primarily sub-debt but senior if deal can not secure senior initially (prevalent in some markets in Michigan)
- Will invest alongside DMI capital if needed to reduce risk to senior debt (parallel boards-captive fund for last $ in)
- Complete project focus alignment as DMI:
  - Industrial
  - Redevelopment
  - Retail
  - Medical
  - Business
  - Housing
- Objectives - Triple Bottom Line:
  - Market Returns for Investors
  - Redevelopment of Critical Community Assets
  - Development in Green and Energy Efficient methods where feasible.

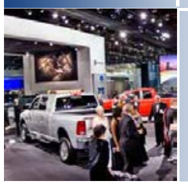
Real Estate Initiative: Captive Private Equity

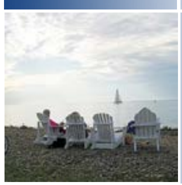
Return to Investors	Risk-Adjusted Market Rate of Return (assessment in process)
Investment in Fund	$5 million to $25 million per investor
CRA Qualified	Case-by-case qualified
Deal Size	Case by case subject to Diversification
Diversification	No more than 20% of total MREIF capital to one project or one developer
Investment Approval	DMI Board approves investments See Pipeline deals (prior)
Manager Compensation	At market rates (assessment in process)
Investment Period	4 years
Term of Fund	7 years with 3 one year extension options

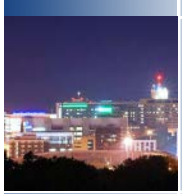


Operating Company Initiative

- Problem: Operating companies struggle to obtain growth capital for specific types of needs due to a lack of providers in the market.
- Those needs are:
  - Revenue growth outstripping asset base
  - Restructuring and optimizing capital costs
  - Succession financing / exit financing
  - Acquisition financing and employee financing
- For larger companies the need is typically addressed by Mezzanine debt providers. A “void” in the market exists for companies sized between $10M and $40M in revenues.

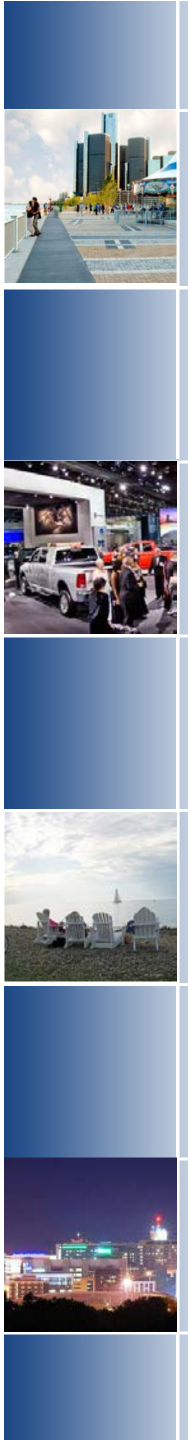




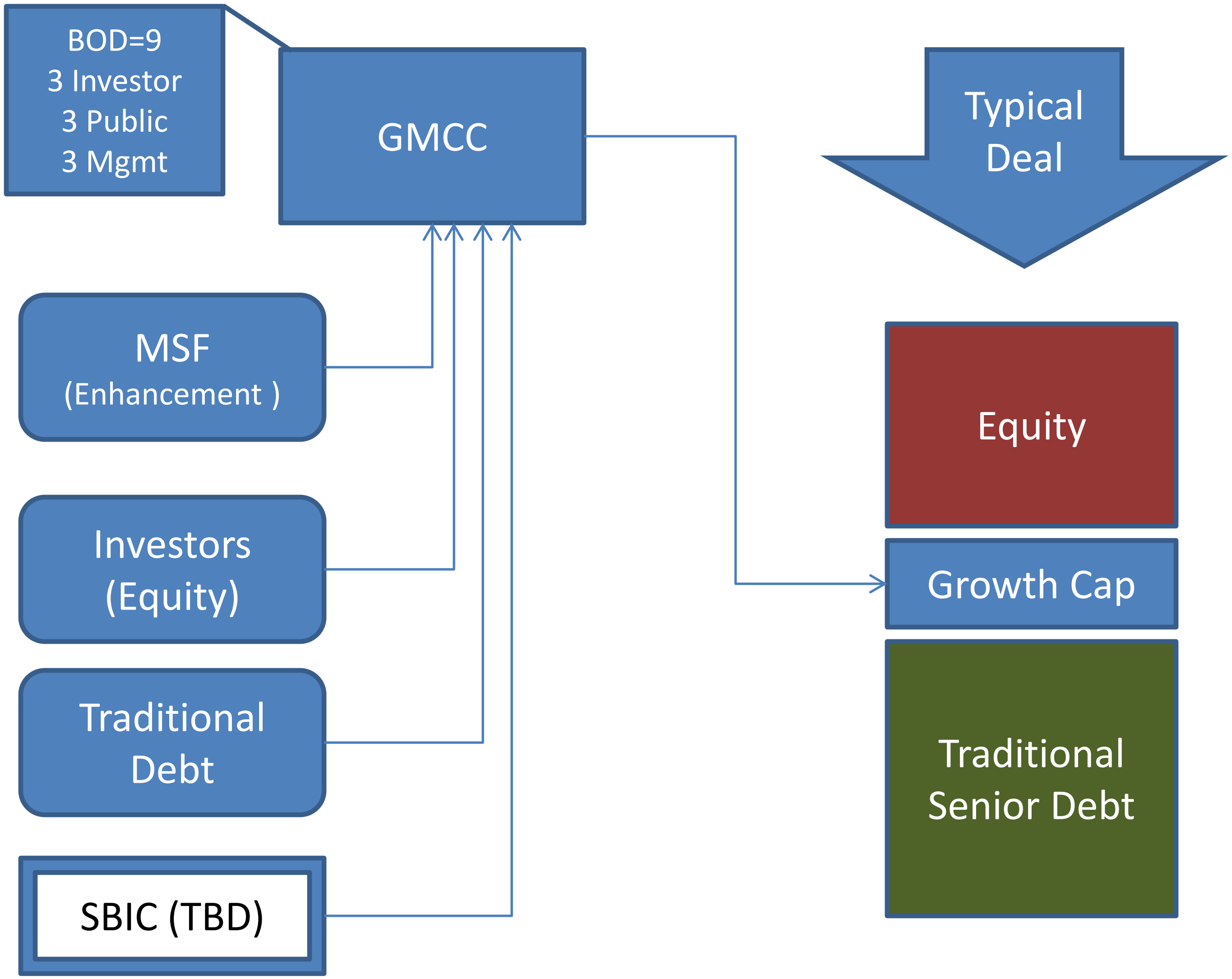


Operating Company Initiative: Solution

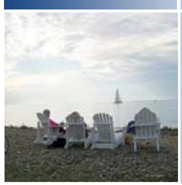
- For Profit C Corp modeled after Mass Capital Resource Corporation
- $20m (first close) to $100m commingled investment company
- Stand alone corporation <u>not</u> managed or operated by DMI
- Operational Manager: to be identified and selected (March 2012)
- Provides growth capital to:
  - Companies with sales between $10 and $40 million
  - Medium-sized, manufacturing, export service, or other economic base firms
  - Companies which can create value for investors and for the Michigan economy
- Capital investment for Acquisitions, Expansion, Balance Sheet Restructuring
- Type of Capital provided: mezzanine capital – fixed rate subordinated expansion capital loans from five to seven years, with some form of equity component.
- To be called "<u>**Grow Michigan Capital Corporation**</u>"

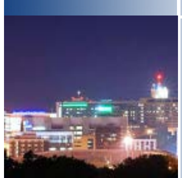


Grow Michigan Capital Corporation



Grow Michigan Capital Corporation





Return to Investors	Risk-Adjusted Market Rate of Return (Dividend policy set by BOD)
Investor Commitments	$3 million to $10 million per investor
CRA Qualified	Case-by-case qualified
Deal Size	$2M to $6M (target) max of $10M
Diversification	No more than 20% of total GMCC capital to one company
Manager compensation	At market rates (assessment in process)
Investment Period	Long Term

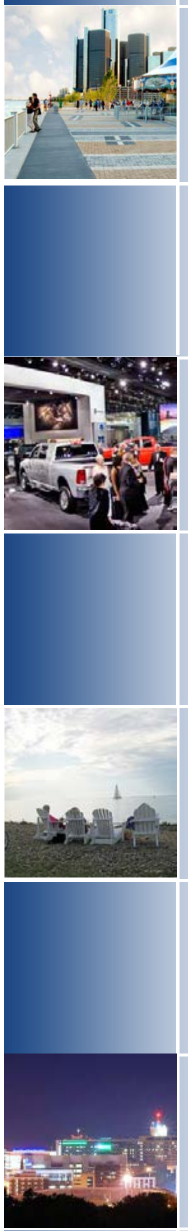
Grow Michigan Capital Corporation: Objectives

- GMCC will serve four critical needs for basic, jobs creating "operating companies" in Michigan:
  - supply capital when growth of the borrower's revenue is outstripping available cash and physical assets are insufficient to secure additional traditional senior debt.
  - supply capital as a part of a turnaround or balance sheet reconfiguration which will allow the company to reduce and reset borrowing costs and take advantage of additional growth opportunities under an optimal capital structure.
  - supply capital to support succession and founder/investor exits which leads to the borrower's remaining /growing in Michigan and continuing to provide employment opportunities in Michigan.
  - supply capital to support the full, arm's-length acquisition of Michigan companies by buyers who intend to maintain the business and grow the business in Michigan.



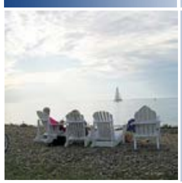

Most potential applicants have been working with this External Consulting Team:

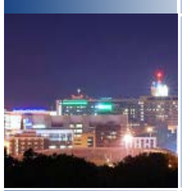
Development Finance Group



The Development Finance Group: $150B TBL Funds in 25 Countries in 40 Years

- 22 Triple Bottom Private Equity Funds
- 31 Technology Commercialization & Venture Capital Funds
- 15 Development Finance Organizations
- 18 Public Pension Funds & Sovereign Trust Funds
- 41 Public-Private Partnerships
- 5 Central Banks
- 74 Strategic Development
- 13 NNMF Investments





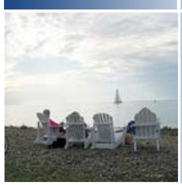
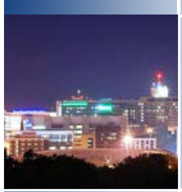
The Development Finance Group: $60B in DFOs Built in 35 Years

✓ Designed and built statewide Development Banks (DFOs) in 15 states:

- Alaska
- Arkansas
- Colorado
- Connecticut
- Florida
- Georgia
- Indiana
- Kansas
- Maine
- Massachusetts
- Nebraska
- Oklahoma
- Virginia
- Washington
- Wyoming

✓ More than $60B in development capital mobilized by these DFOs in 35 years



Economic Innovation International

ECONOMIC INNOVATION INTERNATIONAL, INC.

Established: 1970 by Belden Hull Daniels

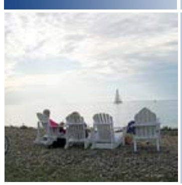
Focus: Creating market driven privately capitalized TBL investment funds that promote civic and public purposes around the world

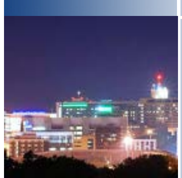
Experience:

- Since 1970, designed and built $150B TBL development funds in 39 states and 21 nations overseas
- Since 1975, designed and built with First Infrastructure and SDS principals $60B in state Development Finance Organizations (DFOs) in 15 states
- Since 1983, has been engaged in Michigan by the Blanchard, Engler, and Granholm Administrations to assist with continuing development finance issues
- Since 2000, built with SDS $2B DBL/TBL private equity funds in low-income areas from coast to coast to pioneer the $20B DBL/TBL industry
- Since 2005, jointly manages with SDS $125M National New Markets Fund

Expertise: Fund Design and Development, DBL/TBL Investment Funds and DFOs, Public-Private Partnerships, Investor Outreach

Strategic Development Solutions (SDS)





STRATEGIC
DEVELOPMENT
SOLUTIONS

Established: 2001 by Deborah La Franchi

Focus: Developing low- and moderate-income areas across the US through Double Bottom Line (DBL) and Triple Bottom Line (TBL) investments

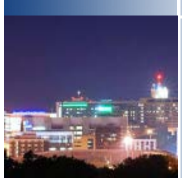
Experience:

- Built with Economic Innovation $2B DBL/TBL private equity funds
- Jointly manages with Economic Innovation the $125M National New Markets Fund

Expertise:

- Designing, Building, and Managing TBL Funds
- Designing, Building, and Managing NMTC Funds and Providing NMTC Design and Operational Services
- Identifying and Securing Alternative Financing
- Preparing Project Impact Reporting
- Building Economic Development Capacity



First Infrastructure

FIRST INFRASTRUCTURE

Established: 2008 by Steven Klein

Focus: Consulting on economic development, alternative energy, and infrastructure projects

Experience:

- Former founder and senior executive of Triple-A rated financial guaranty company
- Served as investment banker, liquidity funder and credit underwriter serving public sector in US and Europe
- Played key role in building $60B in state Development Finance Organizations (DFOs) with Economic Innovation
- Senior Advisor to the US Department of Energy Loan Guarantee Program

Expertise: State and Federal Financing Programs, Bond and Debt Finance, Program Design and Development, Alternative Energy Finance

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

CONFIDENTIALITY ACKNOWLEDGMENT

Compendia Bioscience, Inc.

WHEREAS, Public Act 215 of 2005 created the Strategic Economic Investment and Commercialization Board ("Commercialization Board") for the purposes of awarding grants and loans for basic research, applied research, university technology transfer, and commercialization of products, processes and services to encourage the development of competitive edge technologies to create jobs within the State of Michigan ("Commercialization Program");

WHEREAS, pursuant to Executive Order 2010-8, the Governor ordered the SEIC Board abolished and all powers, duties, and functions of the SEIC Board transferred to the Michigan Strategic Fund ("MSF"),

WHEREAS, the Michigan Strategic Fund ("MSF") Board has designated that the staff of the Michigan Economic Development Corporation ("MEDC") provide administrative services for the Commercialization Program;

WHEREAS, the MSF Board, pursuant to MCL 125.2005(9), has authority to acknowledge financial or other proprietary information in respect of an MSF Commercialization Program loan as confidential information ("Designated Information"); and

WHEREAS, the MEDC recommends that the information described on the attached summary of Designated Information be acknowledged by the MSF as confidential.

NOW, THEREFORE, BE IT RESOLVED, that based on the recommendation of the MEDC, the MSF Board acknowledges the Designated Information set forth in the attached summary as confidential; and

BE IT FURTHER RESOLVED, that MEDC staff shall prepare a written statement consistent with the requirements in MCL 125.2005(9) for release by the MSF Board.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MICHIGAN STRATEGIC FUND CONFIDENTIALITY LOG

Date Received	Name of Applicant	Summary of Designated Information	Confidentiality Acknowledged	Date Written Statement Released	Other Comments
January 10, 2012	Compendia Bioscience, Inc.	Executive summary; business plan; product information future plans; sales and projected sales information; customer names; current and proposed capitalization table; statement of cash flows; balance sheet; profit & loss statement; strategic plan; licenses and contract services for strategic customers			

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

CONFIDENTIALITY ACKNOWLEDGMENT

Pixel Velocity Incorporated

WHEREAS, Public Act 215 of 2005 created the Strategic Economic Investment and Commercialization Board ("Commercialization Board") for the purposes of awarding grants and loans for basic research, applied research, university technology transfer, and commercialization of products, processes and services to encourage the development of competitive edge technologies to create jobs within the State of Michigan ("Commercialization Program");

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Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MICHIGAN STRATEGIC FUND CONFIDENTIALITY LOG

Date Received	Name of Applicant	Summary of Designated Information	Confidentiality Acknowledged	Date Written Statement Released	Other Comments
January 10, 2012	Pixel Velocity Incorporated	Executive summary; business plan; product information future plans; sales and projected sales information; customer names; current and proposed capitalization table; statement of cash flows; balance sheet; profit & loss statement; strategic plan; licenses and contract services for strategic customers			

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

RESCISSION AND TERMINATION OF ENTREPRENEURIAL SUBCOMMITTEE AND REESTABLISHMENT OF THE ENTREPRENEURIAL SUBCOMMITTEE

WHEREAS, the Michigan Strategic Fund ("MSF") wishes to promote and support entrepreneurship in the State of Michigan;

WHEREAS, the Legislature appropriated $25 million to the MSF in FY 2011-2012 for entrepreneurship and innovation;

WHEREAS, on October 26, 2011, the MSF Board by Resolution 2011-155 created a subcommittee comprised of MSF Board members to review and make recommendations to the MSF for programs to encourage and support entrepreneurship in the State of Michigan including, but not limited to, entrepreneurial support services, business incubation and acceleration, and university technology acceleration and commercialization (the "Entrepreneurial Subcommittee");

WHEREAS, the MSF Board would like to rescind and terminate Resolution 2011-155 and recreate and reestablish the Entrepreneurial Subcommittee; and

WHEREAS, the MSF Board would like to create and establish the Entrepreneurial Subcommittee and delegate to the MSF President the authority to name and appoint the Entrepreneurial Subcommittee members who shall review and make recommendations to the MSF for programs to encourage and support entrepreneurship in the State of Michigan including, but not limited to, entrepreneurial support services, business incubation and acceleration, and university technology acceleration and commercialization.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board rescinds and terminates Resolution 2011-155 and the Entrepreneurial Subcommittee;

BE IT FURTHER RESOLVED, the MSF Board creates and establishes the Entrepreneurial Subcommittee and delegates to the MSF President the authority to name and appoint the Entrepreneurial Subcommittee members who shall review and make recommendations to the MSF for programs to encourage and support entrepreneurship in the State of Michigan including, but not limited to, entrepreneurial support services, business incubation and acceleration, and university technology acceleration and commercialization; and

BE IT FURTHER RESOLVED, that the MSF Board authorizes the Fund Manager or MSF President to take any action necessary to effectuate the terms of this Resolution.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

RESCISSION AND TERMINATION OF RENAISSANCE ZONE COMMITTEE AND COEE COMMITTEE AND THE ESTABLISHMENT OF THE INCENTIVE SUBCOMMITTEE

WHEREAS, on April 27, 2011, the MSF Board by Resolution 2011-060 created a subcommittee (the "Renaissance Zone Committee") to, among other things, to review the applications of eligible next michigan businesses seeking qualified eligible next michigan business certification and make recommendations to the MSF regarding same. Additionally, the Renaissance Zone Committee may discuss and analyze issues related to the renaissance zone program and make recommendations to the MSF Board regarding same;

WHEREAS, on August 27, 2008, the MSF Board by Resolution 2008-108 created a committee (the "COEE Committee") to, among other things, assist in the review process of applications for the COEE Program;

WHEREAS, the MSF Board would like to rescind and terminate Resolutions 2011-060 and 2008-108 and create and establish the Incentive Subcommittee; and

WHEREAS, the MSF Board would like to create and establish the Incentive Subcommittee and delegate to the MSF President the authority to name and appoint the Incentive Subcommittee members who shall review and make recommendations to the MSF for programs including, but not limited to, (i) reviewing applications of eligible next michigan businesses seeking qualified eligible next michigan business certification and make recommendations to the MSF, (ii) discuss and analyze issues related to the renaissance zone program and make recommendations to the MSF Board regarding same, (iii) assist and review any matters related to the COEE Program and make recommendations to the MSF Board regarding same, (iv) assist and review any matters related to the Michigan Business Development Program and make recommendations to the MSF Board regarding same, (v) assist and review any matters related to the Michigan Community Revitalization Program and make recommendations to the MSF Board regarding same, and (vi) any other programs or matters the MSF Board may authorize the Incentive Subcommittee to review and make recommendations.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board rescinds and terminates Resolutions 2011-060 and 2008-108 and rescinds and terminates the Renaissance Zone Committee and the COEE Committee;

BE IT FURTHER RESOLVED, the MSF Board creates and establishes the Incentive Subcommittee and delegates to the MSF President the authority to name and appoint the Incentive Subcommittee members who shall review and make recommendations to the MSF for programs including, but not limited to, (i) reviewing applications of eligible next michigan businesses seeking qualified eligible next michigan business certification and make recommendations to the MSF, (ii) discuss and analyze issues related to the renaissance zone program and make recommendations to the MSF Board regarding same, (iii) assist and review any matters related to the COEE Program and make recommendations to the MSF Board regarding same, (iv) assist and review any matters related to the Michigan Business Development Program and make recommendations to the MSF Board regarding same, (v) assist and review any matters related to the Michigan Community Revitalization Program and make recommendations to the MSF Board regarding same,and (vi) any other programs or matters the MSF Board may authorize the Incentive Subcommittee to review and make recommendations; and

BE IT FURTHER RESOLVED, that the MSF Board authorizes the Fund Manager or MSF President to take any action necessary to effectuate the terms of this Resolution.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-

RESCISSION AND TERMINATION OF INVESTMENT SUBCOMMITTEE AND REESTABLISHMENT OF THE INVESTMENT SUBCOMMITTEE

WHEREAS, on August 23, 2006, the MSF Board by Resolution 2006-143 created a subcommittee comprised of MSF Board members (the "Investment Subcommittee") to, among other things, monitor the applicable private equity funds, qualified venture capital funds and qualified mezzanine funds RFP process, discuss proposals received in response to the RFP with the LP Investment Committee formed pursuant to 2005 PA 225, discuss and make recommendations to MSF delegates and the MSF Board with respect to certain 21st Century Jobs Trust Fund matters, matters formerly handled by the SEIC Board, and their respective program loans, grants and contracts, and otherwise report or make recommendations to the MSF Board when necessary or requested by any member of the MSF Board (collectively, the "Investment Recommendations");

WHEREAS, the MSF Board would like to rescind and terminate Resolution 2006-143 and recreate and reestablish the Investment Subcommittee; and

WHEREAS, the MSF Board would like to create and establish the Investment Subcommittee and delegate to the MSF President the authority to name and appoint the Investment Subcommittee members who shall review and make recommendations to the MSF for programs including, but not limited to, (i) the Company Formation and Growth Fund (retention of Pfizer assets program), (ii) 21st Century Jobs Fund 2006 and 2008 business competition rounds, as well as the predecessor programs, Michigan Technology Tri-Corridor Fund program and Michigan Life Sciences Corridor Fund Program, (iii) those loans awarded under the Choose Michigan program, and (iv) any other programs or matters the MSF Board may authorize the Investment Subcommittee to review and make recommendations.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board rescinds and terminates Resolution 2006-143 and the Investment Subcommittee;

BE IT FURTHER RESOLVED, the MSF Board creates and establishes the Investment Subcommittee and delegates to the MSF President the authority to name and appoint the Investment Subcommittee members who shall review and make recommendations to the MSF for programs including, but not limited to, (i) the Company Formation and Growth Fund (retention of Pfizer assets program), (ii) 21st Century Jobs Fund 2006 and 2008 business competition rounds, as well as the predecessor programs, Michigan Technology Tri-Corridor Fund program and Michigan Life Sciences Corridor Fund Program, (iii) those loans awarded under the Choose Michigan program, and (iv) any other programs or matters the MSF Board may authorize the Investment Subcommittee to review and make recommendations; and

BE IT FURTHER RESOLVED, that the MSF Board authorizes the Fund Manager or MSF President to take any action necessary to effectuate the terms of this Resolution.

Ayes:

Nays:

Recused:

Lansing, Michigan
January 25, 2012

MEMORANDUM

Date: January 25, 2011

To: Michigan Strategic Fund Board Members

From: Karla Campbell, State Tax Incentives Manager

Subject: Tool & Die Recovery Zone Program in 2012

PROGRAM BACKGROUND

The Renaissance Zone Act, PA 376 of 1996, was amended to add the Tool and Die Renaissance Recovery Zone program (Recovery Zones) in January 2004. The legislation requires that eligible companies must fall under specific Tool and Die North American Industrial Classification Systems (NAICS), enter into a collaborative agreement with similar companies to focus on sales and marketing efforts, standardized processes, tooling standards and other standardized management methods.

Since 2004, the Michigan Strategic Fund (MSF) has designated 29 Tool and Die Collaboratives (Collaboratives) that include 298 Michigan tool and die companies. As the MSF does not directly enter into an agreement with companies (unless there are 75 or more employees) or individual Collaboratives, there was not a requirement for the companies within the Recovery Zones to report job creation, investment or other information.

As the program progressed, MSF Board members requested information on the success of the program as various companies requested time extensions or other changes to their original approval. To address this request, MEDC staff has obtained this information from some of the companies that have reported voluntarily. Also, the MEDC's Research Division completed a study that found that the program had been successful in retaining the industry in Michigan and helping companies maintain and create employment. A copy of this whitepaper is attached.

PROPOSED PROGRAM CHANGES

MEDC Staff met with the Renaissance Zone Subcommittee in December, via conference call, to discuss possible changes to the Recovery Zones as well as the results of the study. The Subcommittee did not want to add more criteria for job creation and/or investment as long as companies were collaborating and have gone through the approval process. However, the subcommittee and staff did agree that time extensions would not be considered until a company has reached initial phase out.

Below are considerations on implementing the Recovery Zones in 2012.

- **Adding New Companies or Time Extensions**

  Both the Subcommittee and staff would like to add a requirement requiring an apprenticeship or worker training program as many of the Tool and Die companies have stated that finding skilled workers has been a problem. MEDC staff is working with the Michigan Manufacturing Association and Workforce Development staff to establish criteria that would be beneficial for the industry. We will present our ideas to the RZ Subcommittee after we have developed criteria for a training program.

- **Adding New Collaborative Groups in 2012**
  To date, the MSF has designated 29 of the possible 35 Tool and Die Collaboratives that can be awarded by the MSF. In previous years, the MEDC has posted the information for competitive application for a Tool and Die Collaborative on the MEDC website in late spring. We would like to do the same for this year and award no more than three. However, if there is a legislative change in the personal property tax before June 2012, we will revisit designating new Collaboratives as the elimination of personal property taxes for tool and die companies would be very beneficial and the program benefits would be limited.

If there are any other questions or concerns regarding the Tool and Die Recovery program, please contact me at (517) 241-0571 or by e-mail at campbellk@michigan.org.

Tool & Die Recovery Zone Program:

An Impact Analysis

Prepared by:

Corporate Research Unit

Michigan Economic Development Corporation

October 2011

Tool & Die Recovery Zone Program: An Impact Analysis

What is a Tool & Die Recovery Zone?

The Tool and Die Recovery Zone program is collaboration among tool & die companies joining together in business.   Companies within each collaborative are tax free if they agreed to work together with other tool & die companies.

Purpose of the Study: Measure the impact of the Tool & Die Recovery Zone Program

1. Measure the overall level of improvement in the performance of companies in the program.
2. Benchmark the success of companies participating in the program to those in the industry but not it the program.

Study Subjects

1. Tool and Die Recovery Zone Companies: 185 participants
2. Control Group - Tool and Die companies in Michigan not in the program: 1,492 participants

Method

The method used measured the performance of program participants between the time they entered the program and their current status. All other tool & die companies in Michigan were used as a control group to benchmark participant performance. The specific performance measures used came from Dun & Bradstreet Credit Ratings Service as provided through a product called DNBi. It compares the level of performance of T&D companies before and after their participation in the program to the performance of non-participants over the past 5 years.

Measures Used

1. The Commercial Credit Score (CCS) predicts the likelihood that a company will pay its bills in a severely delinquent manner (90 days or more past terms), obtain legal relief from creditors or cease operations without paying all creditors in full over the next 12 months.
2. The Financial Stress Score (FSS) predicts the likelihood of a firm ceasing business without paying all creditors in full, or reorganization or obtaining relief from creditors under state/federal law over the next 12 months.
3. Financial Performance
    a. Sales per establishment.
    b. Jobs Created/Retained – The number of jobs created, lost or retained since the beginning of the company's participation in the program through the current period.

Average Financial Stress Scores (FSS) and Commercial Credit Scores (CCS)

Participant and non-participant FSS and CCS scores showed mixed results. Non-participant Financial Stress Scores (likelihood of a firm ceasing business) grew slightly by 0.02 points. Participants FSS scores grew more than non-participants by 0.26 points. For non-participants, CCS scores (likelihood that a company will pay its bills in a severely delinquent manner) worsened by 0.23 points. Participant CCS scores worsened slightly by 0.09 points.

Average Financial Stress Score

	Mar 06/RZ Start	Current	Change
Non-Participants	2.88	2.90	0.02
Participants	2.77	3.04	0.26

Average Commercial Credit Score

	Mar 06/RZ Start	Current	Change
Non-Participants	2.28	2.51	0.23
Participants	2.24	2.34	0.09

1 = Lowest Risk 5 = Highest Risk

Financial Performance – Sales and Employment

Sales

Program participants had larger sales volumes (by 2.5 times) than non-participants. Participant sales grew at dramatically faster rates than non-participants (+24% vs. – 23%). This pattern of increased sales but steady employment is a common pattern for many businesses in Michigan not just tool & die companies during the early stages of economic recovery.

Employment

Employment remained steady for participants, declining an average of 1 job per establishment. Employment declined dramatically for non-participants, on average, by 53% per business. Based on the performance of non-participants, if the program participants had experienced the same job rate loss of 53%, the 298 program participants would have lost 5,225 jobs.

Employment

	Mar06/RZ Start	Current	Employment
	Mean Employment/Estab.		Change
Participants	33	32	-1
Non-participants	41	19	-22

Sales

	Mar06/RZ Start	Current	
	Median Sales/Estab.		Sales Change
Participants	$ 2,500,000	$ 3,100,000	24.0%
Non-participants	$ 919,100	$ 710,000	-22.8%

Return –on – Investment Analysis

The return-on-investment analysis compares the cost of the program with the state tax revenue saved as a result of retained jobs. The state costs for a tax abatement program are the taxes foregone as a result of abatements granted to participating companies. The taxes generated are based upon the level of personal income created from jobs created or retained as a result of the program.

Based on the above analysis, participating businesses retained 5,225 direct jobs. These are jobs that would have been lost had the participating companies lost jobs at a rate similar to non-participating companies. Because this industry has a strong jobs multiplier of 2.28, an additional 6,688 indirect jobs were retained, totaling 11,912 retained jobs.

In addition, the average tool & die business participating in the program saved $418,548 per company on its annual state tax bill. A total of 298 businesses participated in the program resulting in a program cost of $124.7 million in foregone state tax revenue. Based on an economic impact analysis of the 5,225 direct jobs retained, $168.9 million in state tax revenue was maintained that would have been otherwise lost. Using a conservative approach for assessing the impact evaluation based only on direct jobs, the return on investment for the program was a positive $1.35 … the program generated more revenue than it cost. Using an optimal analysis approach that includes indirect jobs, the ROI for the program is $3.07.

	Direct Jobs	Direct + Indirect
Jobs Retained (2.28 multiplier)	5,225	11,912
Tax Cost per Participant	$418,548	$418,548
RZ participants	298	298
Total tax incentive costs	$124,727,304	$124,727,304
State tax revenue retained	$168,913,148	$382,503,419
Net tax revenue change	$43,054,249	$257,776,115
ROI	1.35	3.07

Further Comments

- As measured by Dun & Bradstreet data:
  - Participant's Commercial Credit Scores improved slightly over non-participants.
  - Participant's Financial Stress Scores were slightly poorer than non-participants.
- Program participants showed significantly greater improvement in financial performance as exhibited by sales and jobs retained.
- The program had a greater impact on the worst performing companies before their participation in the program.
- Companies that started at higher levels of performance sustained that performance.
- The program can probably be characterized as a successful job retention program.
- Why the difference in financial performance versus FSS and CCS? The overall economy began recovery in 2010. Some companies are regaining in sales and production more quickly than they are improving their credit ratings, which normally take longer to recover.