



MEMORANDUM

Date: September 22, 2009

To: Michigan Economic Growth Authority

From: Amy Deprez, Manager
Packaging Team

Marcia Gebarowski, Project Specialist
Packaging Team

Subject: Briefing Memo – CAU Acquisition Company, LLC
(d/b/a Cartridges Are Us)
Standard MEGA Credit - AMENDMENT

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COMPANY NAME

CAU Acquisition Company, LLC (d/b/a Cartridges Are Us)
100 Raycraft Dr.
Ithaca, MI 48847

HISTORY OF COMPANY

CAU Acquisition Company, LLC (d/b/a Cartridges Are Us) (CAU), an independent subsidiary of Clover Technologies Group, is a world-leading, remanufacturing company that specializes in the production, sale, and distribution of inkjet cartridges. CAU originated in 1997 at the home of President and Vice President, Steve and Angie Iocco. In 2003, CAU moved to their current location in Ithaca, Michigan. CAU is one of the largest inkjet remanufacturing companies in the world remanufacturing approximately 200,000 inkjets per month. In 2007, Clover Technologies Group, (CTG) with headquarters in Ottawa, Illinois, acquired CAU forming a strategic alliance. Synergistically, the two companies combined both toner and inkjet recycling and remanufacturing and together have combined annual sales of over \$250 million.

CAU Acquisition Company LLC (d/b/a Cartridges Are Us) currently has 262 full-time employees in Michigan.

PROJECT DESCRIPTION

At the November 24, 2008 MEGA Board meeting the board approved a tax credit for CAU Acquisition Company, LLC to consolidate its Mexicalli, Mexico facility to the Ithaca, Michigan facility in Gratiot County. That project required a capital investment of \$1.6 million and the creation of 186 jobs, paying an average weekly wage of \$512.

Due to the success of the first consolidation the company is considering an extension of that project to consolidate all of the packaging operations from Ottawa, IL to the company's facility in Ithaca, MI. The company will have to expand both of their facilities in the City of Ithaca to accommodate this consolidation, accounting for 75 immediate jobs, and for the additional job growth as contracts are secured for more work and as future consolidations are planned.

The expanded project requires an investment by the company of approximately \$1.5 million and creation of an additional 234 jobs over the next five years. The average weekly wage for the newly created jobs will be \$490. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

Between the two relocations to Ithaca, the company will invest in total approximately \$3.1 million and will create a total of 420 jobs. The average weekly wage will be lowered to the \$490, as a requirement of all jobs included under this agreement. The wages for the two projects are very similar; however with the second relocation, there is less management positions thus the weighting of the average weekly wage is slightly less than the first project. As part of this amendment recommendation, we will be requesting that the wage be lowered by \$22 to accommodate the new weighting.

BENEFIT TO STATE

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 698 jobs in the state by the year 2015. Total state government revenues through the year 2015, net of MEGA costs, would be increased by \$14,170,863 (current dollars) due to the presence of this facility.

BUSINESS CASE

CAU's parent company, CTG, currently owns space to accommodate a consolidation of the packaging operations in Ottawa, Illinois (outside Chicago). The company is currently unable to expand operations for this project or to accommodate future consolidations without expanding physical capacity at their two facilities in Ithaca. Three primary factors jeopardize Michigan's chances for attracting the opportunity, an approximately \$2.00 per hour wage rate differential, the new capital investment required in Ithaca, and the time and cost of the one day transport of finished product back to Illinois for final distribution. If the packaging operations move to Ottawa, Michigan will immediately lose 60 jobs currently held at the Ithaca facility and other jobs may be at risk in the future.

Michigan is able to win the project by utilizing the MEGA Tax Credit to offset the wage differential, discovering that the cost to move the existing packaging operation in order to realize the synergy of the packaging process company wide was relatively close to the new capital investment required at the Ithaca site, and providing additional local incentives which will help offset the inventory carry cost and transportation cost also identified as a variable cost.

OTHER STATE AND LOCAL ASSISTANCE

The City of Ithaca is supportive of this project and plans to approve a 12 year property tax for real property and 7 year property tax abatement for new personal property under PA 198 of 1974.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends the following:

- Amend the 90 percent standard employment tax credit for seven years approved last November to increase the qualified new jobs from 186 to 420, over the company's established employment base of 79;
- Amend the average weekly wage from \$512 to \$490 for all qualified new jobs, as outlined above.