



MEMORANDUM

TO: Michigan Strategic Fund (“MSF”) Board Members

FROM: Stacy Bowerman, Development Finance Manager

DATE: December 19, 2012

SUBJECT: Approval of Michigan Business Development Request for \$2,000,000 Performance-based Grant to:

Canal Street Brewing Co., LLC (“Applicant” or “Company”)
d/b/a Founders Brewing Company
235 Grandville Avenue
Grand Rapids, Michigan 49503
www.foundersbrewing.com

MBDP PROGRAM AND ITS GUIDELINES

On December 21, 2011, the MSF Board approved the Michigan Business Development Program (“MBDP”) and its guidelines. The primary intended objective of the MBDP is to provide incentives to businesses that create qualified jobs, make qualified investments, or a combination of both, in Michigan.

SOURCE OF INFORMATION

It is the role of the Project Management staff (“MEDC Staff”) to review for eligibility, completeness, and adherence to MBDP guidelines, the information provided by the applicant and to manage the MSF’s investment. Explanatory and background information is supplied in summary form to provide context for the request and is drawn exclusively from materials submitted by the applicant, and, as applicable, from other relevant third party sources utilized by MEDC staff.

HISTORY OF THE APPLICANT

The Applicant began operations in 1997 in Grand Rapids, Michigan, with a sparse tap room and small production facility. In 2007, the Applicant relocated to its current facility to support customer demand. Over the past five years, the Applicant has increased its production by 15 times and has a network of 62 distributors across 23 states. Today the Applicant has the opportunity to capitalize on increasing demand of its current customer base beyond what its current facility and equipment will allow. The Applicant also plans to add distributors in new markets over the next five years.

The Applicant received a Brownfield Michigan Business Tax Credit in the amount of \$483,000 in 2010 for an expansion at its Grand Rapids facility.

Michigan Economic Development Corporation

300 North Washington Square | Lansing, MI 48913 | 888.522.0103 | MichiganAdvantage.org | michigan.org

PROJECT DESCRIPTION

The Applicant plans to expand its existing Grand Rapids facility to support its continued growth, make investments and create jobs related to its beer production. Once complete, the Applicant will have capacity to produce four times its current capacity.

- a) The Applicant is a “Qualified Business”, as defined in MCL 125.2088r(9)(b), that is located and operates in Michigan.
- b) The project will be located in the City of Grand Rapids. The City of Grand Rapids has offered a “staff, financial, or economic commitment to the project” in the form of property tax abatement under Public Act 198 of 1974 for a period of 12 years. The estimated value of \$300,000.
- c) The Applicant has demonstrated a need for the funding based on its ability to finance the up-front investment required to keep pace with consumer demand. In addition, without incentive assistance the Applicant would not be able to expand into new markets, both nationally and internationally.
- d) The Applicant plans to create 52 Qualified New Jobs above a statewide base employment level of 44.
- e) The project meets the program guidelines as follows: the proposed project is not a retail or retention project; involves a shovel ready project with near term job creation with the support of the MSF; is located in a distressed community; and has a net positive return to Michigan.

INCENTIVE OPPORTUNITY

This project involves the creation of 52 Qualified New Jobs and a Qualified Investment of \$19.5 million of the total capital investment of up to \$26 million in the City of Grand Rapids. The requested incentive amount from the MSF is \$2 million in the form of a performance-based grant. Please see below for more information on the recommended action.

RECOMMENDATIONS

MEDC Staff recommends (the following, collectively, “Recommendation”):

- a) Approval of the MBDP Proposal as outlined in the term sheet attached to the proposed Resolution (collectively, “MBDP Proposal”);
- b) Closing the MBDP Proposal, subject to available funding under the MBDP at the time of closing (“Available Funding”), satisfactory completion of due diligence, (collectively, “Due Diligence”), finalization of all MBDP transaction documents, and further subject to the following terms and conditions:
 - a. Commitment will remain valid for 90 days with approval for MSF Fund Manager to extend the commitment an additional 30 days.

The MSF Incentive Subcommittee has indicated its support of the Recommendation.

MICHIGAN STRATEGIC FUND

RESOLUTION 2012-181

**APPROVAL OF A MICHIGAN BUSINESS DEVELOPMENT PROGRAM GRANT TO
CANAL STREET BREWING CO., LLC (D/B/A FOUNDERS BREWING COMPANY)**

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

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

WHEREAS, pursuant to MCL 125.2088r, the MSF shall create and operate the Michigan Business Development Program ("MBDP") to provide grants, loans and other economic assistance to qualified businesses that make qualified investments or provide qualified new jobs in Michigan;

WHEREAS, on December 21, 2011, by Resolution 2011-184, the MSF (i) created the MBDP, (ii) adopted the guidelines for the MBDP ("Guidelines"), and (iii) approved the MSF Fund Manager to negotiate the final terms and conditions of the written agreements to be used to memorialize MBDP awards on the MSF'S behalf in accordance with the Guidelines ("Transaction Documents");

WHEREAS, the Guidelines require that MBDP awards over \$1 million must be approved by the MSF Board;

WHEREAS, Canal Street Brewing Co., LLC (d/b/a Founders Brewing Company) ("Company") has requested a performance based MBDP grant of up to \$2 million ("Grant Request"), along with other general terms and conditions which are outlined in the term sheet attached as Exhibit A ("Term Sheet");

WHEREAS, the MEDC has recommended to the MSF Incentive Subcommittee that the MSF approve the Company's Grant Request in accordance with the Term Sheet, subject to: (i) available funding, (ii) final due diligence performed to the satisfaction of the MEDC; and (iii) execution of the Transaction Documents within 90 days of the date of this Resolution ("Time Period"), or 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 ("MBDP Award Recommendation"); and

WHEREAS, the MSF Incentive Subcommittee has indicated its support of the MBDP Award Recommendation.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the MBDP Award Recommendation.

BE IT FURTHER RESOLVED, the MSF Board approves the MSF Fund Manager to negotiate final milestone performance terms from that contained in the Term Sheet, and additional and other terms so long as the additional and other terms are not otherwise materially adverse to the MSF, to accommodate final signing of the Transaction Documents.

ADOPTED.

Ayes: Steve Arwood, Michael Finney, Sabrina Keeley [via phone], Andrew Lockwood [acting for and on behalf of Andy Dillon, designation attached], Howard Morris [via phone], Jim Petcoff, Richard Russel [via phone], Shaun Wilson

Nays: None

Recused: None

Lansing, Michigan
December 19, 2012

EXHIBIT A



**MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Performance Based Grant - Term Sheet**

The following is a summary of the highlights of the project and basic terms for which the Company desires grant support from the Michigan Strategic Fund ("MSF") under the Michigan Business Development Program ("MBDP"). While the MBDP is operated and funded through the MSF, recommendation for approval of a MBDP incentive award is presented by the Michigan Economic Development Corporation ("MEDC") to the MSF.

Date: 11/19/2012

1. **Company Name:** Canal Street Brewing Co., LLC
d/b/a Founders Brewing Company ("Company" or "Applicant")
2. **Company Address:** 235 Grandville Avenue
Grand Rapids, Michigan 49503 ("Project")
3. **MBDP Incentive Type:** Performance Based Grant
4. **Maximum Amount of MBDP Incentive:** Up to \$2,000,000 ("MBDP Incentive Award")
5. **Base Employment Level** 44 The number of jobs (not including retail) currently maintained in Michigan by the Company based on data submitted by the Company to the MEDC reflecting the Company's statewide employment level in Michigan prior to the proposed project. The Base Employment Level, including identification of the Company data used to establish this level, shall be included in the final MBDP Incentive Award agreement ("Agreement") between the MSF and the Company.
6. **Total Qualified New Job Creation:** 52 The minimum number of total Qualified New Jobs the Company shall be required to create in Michigan (above the Base Employment Level), in addition to satisfying other milestones if applicable, to be minimally eligible to receive the full amount of the MBDP Incentive Award. Each Qualified New Job must be performed for consideration by a Michigan resident (whose Michigan income taxes are withheld as required), and each Qualified New Job must be in excess of the Base Employment Level. Qualified New Jobs must not be retail jobs. The
(above Base Employment Level)

EXHIBIT A

final terms and conditions of the requirements for the minimum number of Qualified New Jobs that must be created, including provisions addressing disbursements of portions of the MBDP Incentive Award, shall be included in the final Agreement.

- a. **Start Date for Measurement of Creation of Qualified New Jobs:** October 9, 2012
7. **Company Investment:** \$26,000,000 for new construction and machinery and equipment, or any combination thereof, for the Project.
8. **Qualified Investment:** \$19,500,000 The total minimum amount of the required Company Investment in Michigan related to the project, which at a minimum must include the following: new construction, building renovations and machinery and equipment related to the Project. ("Qualified Investment"). The final terms and conditions of the Qualified Investment shall be included in the final Agreement.
9. **Municipality supporting the Project:** City of Grand Rapids
- a. **Municipality Support.** One of the conditions of execution of the final Agreement is the requirement that the municipality shall have committed to provide: a property tax abatement for real and personal property related to the project. The final terms and conditions demonstrating this support shall be included in the final Agreement.
10. **Disbursement Milestones:** The final terms and conditions of each of the disbursements of any portion of the MBDP Incentive Award shall be included in the final Agreement, including that before any disbursement is made to the Company, the Company must have maintained: (i) the Base Employment Level (exclusive of the number of Qualified New Jobs then created) and (ii) any Qualified New Jobs created for which disbursements by the MSF have been made, and must have maintained the amount of the required Qualified Investment and otherwise be in compliance with all terms and conditions of the final Agreement, and further shall include:
- a. **Disbursement Milestone 1:** Up to \$2,000,000 Upon demonstrated support that the Company has maintained the Base Employment Level, verification that the Company has closed on financing for the initial phase of the Project of at least \$3,900,000 and verification of final approval of municipality support by no later than March 31, 2013.

EXHIBIT A

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| b. Milestone 2: | \$0 | Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 30 Qualified New Jobs above the Base Employment Level, by no later than December 31, 2014. |
| c. Milestone 3: | \$0 | Upon completion of Disbursement Milestone 1 and Milestone 2, and upon demonstrated creation of 22 additional Qualified New Jobs above the Base Employment Level and completion of the Qualified Investment, by no later than December 31, 2015. |

11. Term of Agreement: Execution of Agreement to December 31, 2017. Provided however, certain terms of the Agreement may be effective through a different end date including the revenue participation terms and conditions (discussed below) which shall be effective through the date the MSF has received repayment of all of the disbursements made to the Company by the MSF (plus any applicable interest, fees and costs if such payments are not made in a timely made).

12. Repayment Provisions:

Repayment provisions are required by law. The Repayment terms and conditions will be defined in the final Agreement, and shall include terms and conditions to repay the MSF. Such terms will include repayment to the MSF under at least the following parameters:

- a. **Revenue Participation:** The final Agreement will include revenue participation terms and conditions which will require the Company to make annual payments to the MSF beginning June 30, 2016 and continue each June 30 through June 30, 2023. The revenue participation terms will require payments equal to one-half of one percent (.5%) of the Company's annual gross revenues, as such gross revenues are indicated on the Company's audited financial statements. The annual payment to the MSF shall not exceed \$300,000 for years 2016 through 2020 and \$350,000 for years 2021 through 2023; in each case, plus interest, fees and costs if such payments are not timely made.
- b. **Other Repayment Terms:** In addition to revenue participation terms, the final repayment provisions will also require repayment of some, or up to all, of the disbursements made by the MSF (plus any applicable interest, plus fees and costs if such payments are not timely made), including if the Company moves 25 percent, or more, of its employees out of Michigan, if, through December 31, 2017 the Company fails to maintain the Base Employment Level in Michigan, and if the Company fails to create and maintain the Qualified New Jobs incented by this Award.

Under the repayment provisions, it is possible that the Company may pay more than the full amount of the disbursements made to the Company by the MSF, provided however, the Company shall not be required to pay more than up to 127.5% of the total MSF grant disbursements made, plus any applicable interest, costs and fees.

13. Reporting Requirements:

Periodic reporting will be required with this program. The detailed information needed from the Company will be included in the final Agreement, but will include Project reporting for such things as: amount of proposed incentive, amount of actual incentive received by Company; amount of proposed and actual investment made by Company for Project; the committed number of new jobs and the actual number of

EXHIBIT A

new jobs created as a result of the Project; the educational attainment of the employees hired; the number of new patents, copyrights, or trademarks applied for and issued to the Company; the number of licensing agreements by the Company and the number of such licensing agreements entered into by the Company with Michigan based firms; and any products commercialized by the Company.

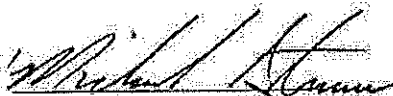
14. Public Announcements:

The Company shall not make, or cause, any announcement of the proposed MBDP Incentive Award parameters outlined in this letter before the date of approval by the MSF of the MBDP Incentive Award, unless prior authorized and coordinated with the MEDC.

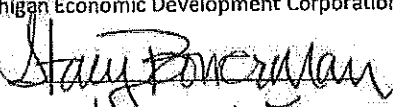
Any final MBDP Incentive Award is contingent upon several factors, including: (i) submission by the Company of a completed application and all other documentation required under the MBDP (ii) satisfactory municipality support (iii) available MSF funding (iv) completion of financial review, business integrity review, required background checks, and other business and legal review and due diligence as required, and the results of which must be satisfactory the MEDC, the MSF, and as applicable, the Chief Compliance Officer, (v) approval of an award by the MSF, and (vi) execution of a final Agreement containing the established milestones, repayment terms, reporting requirements, and all other detailed terms and conditions, required by the MSF.

If the Company is interested in the MEDC pursuing a recommendation to the MSF for a possible MBDP Incentive Award for the Company along the above parameters, please sign and date this Term Sheet. If the MEDC does not receive the signed Term Sheet from the Company by November 26, 2012, the MEDC may not be able to proceed with any recommendation to the MSF.

Canal Street Brewing Co. L.L.C. d/b/a Founders Brewing Company

By:  Printed Name: Michael Stevens
Its: President / CEO
Dated: 11-21-12

Acknowledged as received by:

Michigan Economic Development Corporation
By:  Printed Name: Stacy Bowerman
Its: Development Finance Manager
Dated: 11/27/12



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

ANDY DILLON
STATE TREASURER

June 21, 2012

Ms. Ellen Graham
Board Relations Liaison
Michigan Strategic Fund Office
300 N. Washington Square
Lansing, Michigan 48913

Dear Ms. Graham:

I hereby designate Andrew Lockwood to represent me at Michigan Strategic Fund meetings I am unable to attend.

Sincerely,

A handwritten signature in cursive script, appearing to read "Andy Dillon".

Andy Dillon
State Treasurer

cc: Andrew Dillon