



MEMORANDUM

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

FROM: Joshua Hundt, Senior Regional Project Manager

DATE: July 25, 2012

SUBJECT: Approval of Michigan Business Development Request for \$2,500,000
Performance-based Grant to:

Cherry Growers, Inc. (“Applicant” or “Company”)
6331 South US 31
Grawn, Michigan 49637
www.Cherrygrowers.net

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

Cherry Growers, Inc. (“CGI”) is a grower owned cooperative whose members provide apples and cherries from orchards throughout Michigan. CGI is a cooperative that is taxed as a Michigan C-corporation. CGI has three major lines of business: food service, which includes applesauce, pie fillings, and shelf stable juices; retail products, which includes single serve assortments of applesauce and shelf stable juices; and industrial products, which includes frozen cherries and apples.

The MSF has previously supported CGI with \$4.2 million through Michigan’s loan participation programs.

PROJECT DESCRIPTION

The Applicant plans to expand an existing operation in Michigan, make investments and create jobs related to the construction of a food grade manufacturing facility and implementation of receiving, warehousing, and apple sauce cooking machinery necessary to facilitate the manufacture of individual serving Pouch Style 100% fruit based snack products. The company plans to enter into a fifteen year supply agreement for infrastructure, services, and apples with Materne North America, Corp. for the manufacture of Materne North America Corp.'s GoGosqueez product line.

- 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 Green Lake Township. Green Lake Township has offered a "staff, financial, or economic commitment to the project" in the form of Property tax abatement under PA 198 of 1974. The estimated value of this abatement is not known at this time.
- c) The Applicant has demonstrated a need for the funding based on the need to partially offset the less competitive market conditions for apple sourcing in Michigan compared to Washington.
- d) The Applicant plans to create 72 Qualified New Jobs above a statewide base employment level of 137.
- e) The project meets the program guidelines as follows: the company has indicated that they will make capital investment and create jobs in 2012 and this project has a positive projected return-on-investment for the State of Michigan.

INCENTIVE OPPORTUNITY

This project involves the creation of 72 Qualified New Jobs and a capital investment of up to \$12,499,760 in Green Lake Township. The requested incentive amount from the MSF is \$2,500,000 in the form of a performance-based grant. In addition to the performance based grant, there will be a profit participation agreement equal to at least 5% of the Company's total net income per year, based on an acceptable net income formula, beginning with the fiscal year ending May 31, 2015, and continuing until such time as the Company has repaid all the disbursements made to the Company by the MSF. 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.