



## MEMORANDUM

**TO:** Delegates of the Michigan Strategic Fund ("MSF") Board for the Michigan Business Development Program

**FROM:** Marcia Gebarowski, Development Finance Manager

**DATE:** October 22, 2012

**SUBJECT:** Approval of Michigan Business Development Request for \$1,000,000 Performance-based Grant to:

Continental Automotive Systems, Inc. ("Applicant" or "Company")  
1 Continental Drive  
Auburn Hills, Michigan 48326  
www.conti-auto.com

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### 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 Development Finance 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

Continental Automotive Systems Holding US, Inc. (Continental Automotive Systems) is a part of Continental AG's automotive group and is one of the leading global auto suppliers with sales of approximately 15 billion euro in 2008. Continental Automotive Systems was formerly known as Siemens VDO Automotive Group and was acquired by Continental AG in 2007. The Continental Group provides automotive electronics and mechatronics with products and systems which focus on driving safety, environmental responsibility, and cost-efficiency. Continental Automotive Systems is the powertrain division of the Continental Group and focuses on developing innovative and efficient solutions for reducing emissions, optimizing fuel consumption, and delivering outstanding handling characteristics. Continental Automotive Systems and its affiliates currently have 1,592 employees in Michigan.

Michigan Economic Development Corporation

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

Continental Automotive Systems is a named eligible company for a standard new jobs and retention MEGA tax credit received by Continental Automotive Systems Holdings, Inc. in 2009. The new jobs credit was amended in 2012 to account for the increase in qualified new jobs associated with this project as well. The credit ends in 2018.

### **PROJECT DESCRIPTION**

The Applicant plans to reconfigure office space to add capacity at a leased facility in Auburn Hills, make investments and create jobs related to research and development of automotive components.

- 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 Auburn Hills. The city has offered a “staff, financial, or economic commitment to the project” in the form of a P.A. 198 property tax abatement for eight years. The estimated value of this abatement is \$391,500.
- c) The Applicant has demonstrated a need for the funding based on the company having excess capacity at a company-owned building in Illinois to place new job growth without having to incur building expansion and renovation costs.
- d) The Applicant plans to create 250 Qualified New Jobs above a statewide base employment level of 1,592. As requirement of the performance based grant, the project will create or cause the creation of 50 additional jobs over the statewide base.
- e) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: The Company indicates that capital investment will begin in 2012, new job ramp-up will begin in 2013, existing buildings are being re-used to their fullest capacity, and the new jobs are highly-paid positions that result in a positive ROI to the state.

### **INCENTIVE OPPORTUNITY**

This project involves the creation of 250 Qualified New Jobs, with a potential for up to 300 new jobs, and a capital investment of up to \$1.5 million in the City of Auburn Hills. Additional investment related to the project includes approximately \$7.1 million to construct 25,000 additional square feet to a second building in Auburn Hills, and machinery and equipment to be made on behalf of the company by a sister company, Continental Automotive Systems US, Inc. The requested incentive amount from the MSF is \$1,000,000 in the form of a performance-based grant. Please see below for more information on the recommended action.

### **RECOMMENDATIONS**

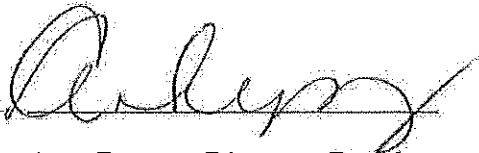
MEDC Staff recommends (the following, collectively, “Recommendation”):

- a) Approval of the MBDP Proposal as outlined in the attached term sheet (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,

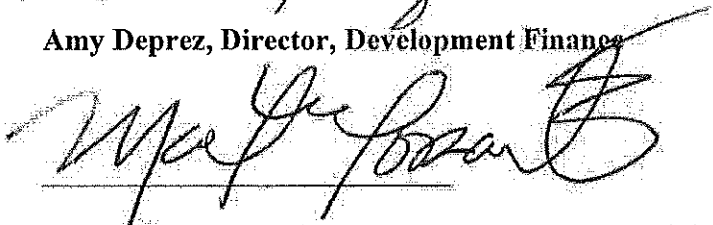
“Due Diligence”), finalization of all MBDP transaction documents, and further subject to the following terms and conditions:

- a. Commitment will remain valid for 90 days with approval for MSF Fund Manager to extend the commitment an additional 30 days.

**APPROVAL AUTHORITY – MBDP SUPPORT MEMO**  
**Michigan Economic Development Corporation**



**Amy Deprez, Director, Development Finance**

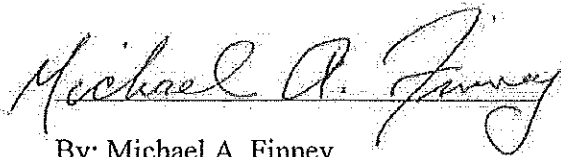


**Mark Morante, Senior Vice President, Program Management**

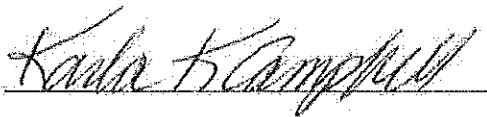
The Recommendation is approved subject to Available Funding and Completion of Due Diligence, and execution of all MBDP transaction documents, all in accordance with the MBDP and its guidelines:

Note: To utilize the delegation authority granted by the MSF Board, the approval of the Chairperson, and either the MSF Fund Manager of the MSF State Treasurer Director, are required for this commitment under the MBDP:

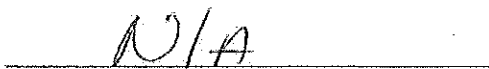
**Michigan Strategic Fund**



By: Michael A. Finney  
Its: Chairman



By: Karla Campbell  
Its: Fund Manager



By: Andy Dillon, State Treasurer  
Its: Director



**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: 9/28/2012

1. **Company Name:** Continental Automotive Systems, Inc. ("Company" or "Applicant")
2. **Company Address:** 1 Continental Drive  
Auburn Hills, Michigan 48326  
www.conti-online.com
3. **Project Address ("Project"):** 2400 Executive Hills Boulevard  
Auburn Hills, Michigan 48326  
*if different than above*  
  
1 Continental Drive  
Auburn Hills, Michigan 48326  
  
15001 Commerce Drive  
Dearborn, Michigan 48120
4. **MBDP Incentive Type:** Performance Based Grant
5. **Maximum Amount of MBDP Incentive:** Up to \$1,000,000 ("MBDP Incentive Award")
6. **Base Employment Level** 1592 The number of jobs currently maintained in Michigan by the Company and its affiliates and related entities (Continental Automotive Systems Holdings US, Inc. EIN: 26-0456126, Continental Automotive Systems US, Inc. EIN: 13-3784645) 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.

7. **Total Qualified New Job Creation:** 250 The minimum number of total Qualified New Jobs (above Base Employment Level) the Company shall be required to create statewide (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. The 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:** August 20, 2012

8. **Company Investment:** Approximately \$1.6 million in new building construction, and furniture and fixtures or any combination thereof, for the Project.

9. **Qualified Investment:** \$750,000 The total minimum amount of the required Company Investment in Michigan related to the project, which at a minimum must include the following: furniture and fixtures related to the Project at 1 Continental Drive no later than December 31, 2014. ("Qualified Investment"). The final terms and conditions of the Qualified Investment shall be included in the final Agreement.

10. **Municipality supporting the Project:** City of Auburn Hills

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. The final terms and conditions demonstrating this support shall be included in the final Agreement.

**11. 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 otherwise be in compliance with all terms and conditions of the final Agreement, and further shall include:

<p><b>a. Disbursement Milestone 1</b></p>	<p>Up to \$800,000</p>	<p>Upon demonstrated creation of 100 new jobs above the Base Employment Level, upon demonstrated creation of an additional 50 jobs above the Base Employment by the Company or its related entities: Continental Automotive Systems Holdings US, Inc. EIN: 26-0456126, Continental Automotive Systems US, Inc. EIN: 13-3784645, Inc., demonstration of a certificate of occupancy for 2400 Executive Hills Blvd., upon demonstrated completion of the Qualified Investment by the Company, and verification of final approval of municipality support by no later than December 31, 2014.</p>
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<p><b>b. Disbursement Milestone 2</b></p>	<p>Up to \$200,000</p>	<p>Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 150 additional Qualified New Jobs (by the Company) above the Base Employment Level by no later than December 31, 2016.</p>
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**12. Term of Agreement:** Execution of Agreement to December 31, 2018.

**13. Repayment Provisions:**

Repayment provisions are required by law. The Repayment terms and conditions will be effective through the Term of the Agreement and shall be defined in the final Agreement. The final repayment provisions may require repayment of some or all of the disbursements made by the MSF, including if the Company moves 25% or more of their employees out of Michigan, if the Company fails to maintain the Base Employment Level in Michigan, if the Company fails to maintain the Qualified New Jobs incented by this Award.

**14. 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 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.

**15. 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 August 17, 2012, the MEDC may not be able to proceed with any recommendation to the MSF.

Continental Automotive Systems, Inc.

By: *Andrew Martin*  
Its: VP FINANCE  
Dated: 10-1-12

Continental Automotive Systems, Inc.

By: *Kepp Higgins*  
Its: SVP Powertrain NA  
Dated: October 2, 2012

**Acknowledged as received by:**

Michigan Economic Development Corporation  
By: *Nickie Cal*  
Its: DETA  
Dated: 10/2/12