

MEMORANDUM

DATE: December 18, 2001
TO: Michigan Economic Growth Authority
FROM: Kathleen Blake, Senior Vice President
Business Development
SUBJECT: Briefing Memo – Gyricon Media, Inc.

COMPANY NAME AND ADDRESS:

Gyricon Media, Inc.
3333 Coyote Hill Rd.
Palo Alto, CA 94304

HISTORY OF COMPANY:

Gyricon Media, Inc. is a spin-off of Xerox Corporation and is ready to commercialize its SmartPaper technology, developed at the famous Xerox research center in Palo Alto, California. SmartPaper is a display material that is expected to revolutionize the handling and distribution of information in the next decade. The company currently has 40 employees located in its research and development center in Palo Alto and sales office located on the East Coast.

PROJECT DESCRIPTION:

The company is in the commercialization stage of its product and needs to site a manufacturing facility. Due to the concentration of manufacturing in the Midwest, the company has chosen to look at Michigan and Ohio as possible locations for this facility.

The company anticipates hiring up to 345 employees by the end of 2003 and up to 634 by the end of the third year of operation. These positions would pay an average weekly wage of \$790 and a benefit package worth up to 20 percent of wages. The company would invest \$29 million in leases, building upgrades and machinery and equipment over this three-year period.

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BENEFIT TO STATE:

According to the economic analysis done by the University of Michigan using Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 1,031 jobs in the state by the year 2012. Total state revenues through the year 2012, net of MEGA costs, net of property tax abatement costs, and adjusted for inflation, would be increased by \$33,569,000 (2001 dollars) due to the presence of the Gyricon Media, Inc. manufacturing facility.

BUSINESS CASE:

In its due diligence process, the company focused on Ohio and Michigan as possible locations for this facility. Again, this was primarily due to the proliferation of manufacturing in this area and the anticipation that workers skilled in manufacturing would be easier to find. A review of costs showed a cost advantage in Ohio, primarily due to facility costs and incentives being offered by Ohio to attract this project. The facility in Ohio is under Toledo Port Authority jurisdiction and can thereby offer a highly subsidized lease cost of \$.50 per square foot. The facility in Michigan, on the other hand, is located in Scio Township in Washtenaw County, a suburb of Ann Arbor, and rent cannot be subsidized at that location. The State of Ohio also offered the company other incentives, including its Jobs Creation Tax credit, a Machinery & Equipment credit, a \$5 million low interest loan, property tax abatements and job training grants.

The company prefers the Michigan location but cannot justify it to investors without Michigan trying to match fairly closely the incentive package being offered by Ohio. A MEGA tax credit is thereby needed to address these cost differences.

OTHER STATE AND LOCAL ASSISTANCE:

The State of Michigan will provide a 100 percent abatement of the six mill State Education Tax for a period of time to match the local property tax abatement. This tax abatement is estimated to be worth \$340,473. In addition, an Economic Development Job Training (EDJT) grant of \$331,000 will be provided. This includes \$1,500 for each of 20 technical employees and \$500 for each of up to 614 other employees of the company.

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Scio Township will provide 50 percent property tax abatement on personal property for a period of 12 years. The estimated value of this abatement is \$1,018,795.

RECOMMENDATION:

The Michigan Economic Development Corporation recommends an employment tax credit of 100 percent for up to 634 new employees for a period of ten years and a business activity credit of 100 percent for five years.