



## MEMORANDUM

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

**FROM:** Trevor Friedeberg, Development Finance Manager

**DATE:** May 6, 2013

**SUBJECT:** Approval of Michigan Business Development Request for \$350,000 Performance-based Grant to:

Kay Screen Printing, Inc. (dba Kay Automotive Graphics) ("Applicant" or "Company")  
57 Kay Industrial Drive  
Lake Orion, Michigan 48359  
www.kayautomotive.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

The Company primarily produces exterior graphics and trim parts for the North American Automotive market. The Company serves the 'Big Three' domestic Original Equipment Manufacturers (OEMs), along with a wide cross section of import OEMs. The Company currently fulfills a majority of this business in the current marketplace.

The Applicant has not received any incentives from the MSF in the past.

### PROJECT DESCRIPTION

The main raw material that the company uses for its production is vinyl films. In order to better control the supply of this material, the Company acquired a vinyl film manufacturer in Wales,

Michigan Economic Development Corporation

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United Kingdom, in April 1995. This acquired company, Kay Premium Marking Films, Ltd (KPMF), has been the major supplier since that time. KPMF also has other global customers, and the combination of the Company and other business has KPMF producing close to full capacity.

The Applicant plans to construct a new facility in Lake Orion (57 Kay Industrial Drive) to address its growth needs, make investments and create jobs related to the production of exterior automotive graphics and trim parts. Qualified New Jobs will be created by the Applicant and KPMF USA, Inc.

- 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 Charter Township of Orion. The Charter Township of Orion has offered a "staff, financial, or economic commitment to the project" in the form of a property tax abatement on real and/or personal property under Public Act 198 of 1974 for twelve (12) years. The value of this abatement is estimated at \$731,000.
- c) The Applicant has demonstrated a need for the funding. The alternative site for this project is on the lot adjacent to the Company's manufacturing facility in Wales, United Kingdom. This facility currently performs the same manufacturing function to be conducted at the new facility. The United Kingdom facility would be able to produce products much more quickly than a separate facility in Michigan.
- d) The Applicant plans to create 50 Qualified New Jobs above a statewide base employment level of 294.
- e) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: The project involves out-of-state competition, the Company has strong links to Michigan suppliers, the project is not a retention project, and the project will result in a positive ROI for Michigan.

#### **INCENTIVE OPPORTUNITY**

This project involves the creation of 50 Qualified New Jobs and a capital investment of up to \$12,915,000 in the Charter Township of Orion. The requested incentive amount from the MSF is \$350,000 in the form of a performance-based grant. Please see below for more information on the recommended action.

#### **RECOMMENDATIONS**

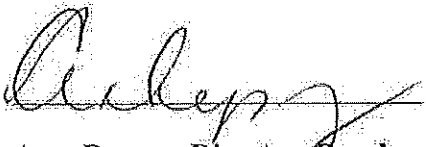
MEDC Staff recommends (the following, collectively, "Recommendation"):

- 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:

Kay Screen Printing (dba Kay Automotive Graphics)

- a. Commitment will remain valid for 120 days with approval for MSF Fund Manager to extend the commitment an additional 60 days;
- b. MSF Fund Manager can 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.

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

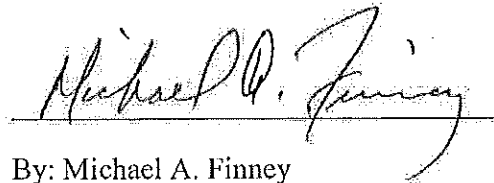


**Amy Deprez, Director, Development Finance**

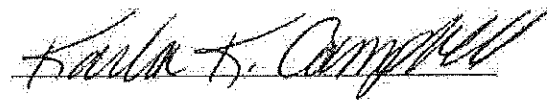
The Recommendation is approved subject to Available Funding and Completion of Due Diligence, and execution of all MBDP transaction documents, all in accordance with the MBDP and its guidelines:

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

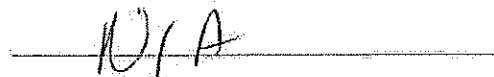
**Michigan Strategic Fund**



By: Michael A. Finney  
Its: Chairman



By: Karla K. 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:** 5/3/2013

- 1. Company Name:** Kay Screen Printing, Inc. (dba Kay Automotive Graphics)  
("Company" or "Applicant")
  
- 2. Company Address ("Project"):** 57 Kay Industrial Drive  
Lake Orion, Michigan 48359
  
- 3. MBDP Incentive Type:** Performance Based Grant
  
- 4. Maximum Amount of MBDP Incentive:** Up to \$350,000 ("MBDP Incentive Award")
  
- 5. Base Employment Level** 294 The number of jobs 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:** 50 The minimum number of total Qualified New Jobs the Company and KPMF USA, Inc. (a subsidiary of 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. The final terms and  
(above Base Employment Level)

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:** Date of Approval of MSF Award

7. **Company Investment:** The Company will spend \$12,915,000 for land costs, new building construction, machinery and equipment, furniture and fixtures, computers, and pollution control equipment or any combination thereof, for the Project.

8. **Municipality supporting the Project:** Charter Township of Orion

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 under PA 198 of 1974 for 12 years. The final terms and conditions demonstrating this support shall be included in the final Agreement.

9. **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:

a. **Disbursement Milestone 1:** Up to \$105,000 Upon demonstrated creation of 15 Qualified New Jobs above the Base Employment Level and verification of final approval of municipality support by no later than April 30, 2015.

b. **Disbursement Milestone 2:** Up to \$70,000 Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 10 additional Qualified New Jobs above the Base Employment Level, by no later than April 30, 2016.

c. **Disbursement Milestone 3:** Up to \$35,000 Upon completion of Disbursement Milestone 1, and Disbursement Milestone 2, and upon demonstrated creation of 5 additional Qualified New Jobs above the Base Employment Level, by no later than April 30, 2017.

- d. **Disbursement Milestone 4:** Up to \$35,000 Upon completion of Disbursement Milestone 1, Disbursement Milestone 2, and Disbursement Milestone 3, and upon demonstrated creation of 5 additional Qualified New Jobs above the Base Employment Level, by no later than April 30, 2018.
- e. **Disbursement Milestone 5:** Up to \$105,000 Upon completion of Disbursement Milestone 1, Disbursement Milestone 2, Disbursement Milestone 3, and Disbursement Milestone 4, and upon demonstrated creation of 15 additional Qualified New Jobs above the Base Employment Level, by no later than April 30, 2019.

**10. Term of Agreement:** Execution of Agreement to April 30, 2021.

**11. 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.

**12. 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.

**13. Public Announcements:**

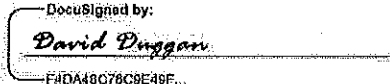
The Company shall not make, or cause, any announcement of the proposed MBDP Incentive Award parameters outlined in this letter before the date of approval by the MSF of the MBDP Incentive Award, unless prior authorized and coordinated with the MEDC.

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 5/10/2013, the MEDC may not be able to proceed with any recommendation to the MSF.

Kay Screen Printing (dba Kay Automotive Graphics)

By:    
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Printed Name: David Duggan

Its: Vice President of Finance

Dated: 5/6/2013

**Acknowledged as received by:**

Michigan Economic Development Corporation

By:    
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Printed Name: Trevor Friedeberg

Its: Development Finance Analyst

Dated: 5/6/2013