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MEMORANDUM

Date: December 14, 2010

To: Michigan Economic Growth Authority

From: Joe Quick, Project Specialist
Packaging Team

Subject: Briefing Memo – Otto Bock Polyurethane Technologies, Inc.
High Technology MEGA Credit

COMPANY NAME

Otto Bock Polyurethane Technologies, Inc.
3 Penn Center West, Suite 406
Pittsburgh, Pennsylvania 15276

HISTORY OF COMPANY

Otto Bock Polyurethane Technologies, Inc. ("Otto Bock") is a German company based in Duderstadt, Germany and founded in Berlin in 1919 as a healthcare company. Today, Otto Bock is a global leader for orthopedic applications (artificial limbs) and a leader in special polyurethane applications in the automotive and furniture / mattress markets.

Otto Bock expanded to North America in 1958, with the foundation of a production plant for artificial limbs in Minneapolis, Minnesota. Until 2000, Minneapolis was the base for its polyurethane business. It was relocated that year to Pittsburgh, Pennsylvania, where it remains today.

Otto Bock has been a tier 2 supplier to the automotive industry in North American for more than 20 years. Its polyurethane chemical systems operations were introduced for the production of steering wheels; today Otto Bock is a world leader in this field.

The company currently has one (1) employee in Michigan.

PROJECT DESCRIPTION

Otto Bock plans to open a facility at a building identified in the City of Rochester Hills that will produce molded polyurethane parts for noise, vibration and harness (NVH) applications in the automotive industry. These parts are based on a new unique chemistry, and are used to reduce noise in the engine compartment. This unique chemistry provides long-term part durability through improved resistance to thermal degradation and under-hood chemical penetration. The parts produced will

address increased noise in fuel efficient engines with their superior acoustic absorptive and damping qualities.

The company plans to invest approximately \$13.3 million and create 98 jobs over the next five years, with 18 jobs projected in year 1, as a result of this project. The average weekly wage for the newly created jobs is anticipated to be \$794. The company also offers healthcare benefits, and plans to pay a portion of the benefit cost.

The effect on other Michigan businesses in the same industry was taken into consideration when recommending the amount and length of this tax credit.

BENEFIT TO STATE

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will generate a total of 233 jobs in the state by the year 2015. Total state government revenues through the year 2015, net of MEGA costs, would be increased by \$2,339,344 (current dollars) due to the presence of this facility.

BUSINESS CASE

Otto Bock is also considering using its existing Pittsburgh, Pennsylvania facility and existing infrastructure to support this expanded work. Besides offering the option to use part of the existing workforce in Pennsylvania, the company states that knowledge of the unique chemistry and production process needed for the parts to be produced is not readily available in Michigan. This experience and expertise does exist in Pittsburgh.

Otto Bock is also considering investment in Mexico because of the significantly lower labor costs.

OTHER STATE AND LOCAL ASSISTANCE

In support of this project, the City of Rochester Hills is considering a five-year real and personal property abatement. The value of this abatement is not known at this time.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY

The company is a qualified high-technology business, whose primary business activity is Advanced Automotive Technology, as defined in the Act.

The company has certified that at least 10 percent of its total operating expenses are related to research and development.

RECOMMENDATION

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent high-technology employment tax credit for five years for up to 98 net new employees in excess of the company's established base of one (1).