



MEMORANDUM

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

FROM: Kenneth Murdoch, Development Finance Manager

DATE: April 25, 2013

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

Rec Boat Holdings, LLC ("Applicant" or "Company")
925 Frisbie Street
Cadillac, Michigan 49601
www.fourwinns.com

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

Rec Boat Holdings, LLC (RBH) was organized in early 2010 to acquire certain assets of the bankrupt Genmar Holdings, Inc. RBH manufactures and sells boats under the brand names Four Winns, Glastron, Scarab and Wellcraft. The company has 436 full time permanent employees in Michigan.

The Applicant is currently receiving a job creation credit against their Michigan Business Tax (MBT) for 8 years. As part of this incentive package we are requiring the maximum Qualified New Jobs allowed under the credit to be reduced to 300 from 2,320. All other aspects of the job creation MBT tax credit would remain the unchanged.

Michigan Economic Development Corporation

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

PROJECT DESCRIPTION

The Applicant plans to launch a new jet boat line as well as add jet powered boats to their existing product line. The project will require RBH to acquire the assets of an existing company in Illinois and invest an additional \$4.8 million in building renovation, equipment purchases, special tooling, furniture and fixtures, other personal property and working capital. The company will create jobs related to boat manufacturing in the City of Cadillac.

- 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 Cadillac. The City of Cadillac has offered a financial or economic commitment to the project” in the form of 12 year property tax abatement valued at approximately \$63,000.
- c) The Applicant has demonstrated a need for the funding. The alternative to the project was to consolidate the operations of the company they are acquiring to Illinois where it is currently located.
- d) The Applicant plans to create 135 Qualified New Jobs above a statewide base employment level of 436.
- e) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: The project is involves out state competition from Illinois. The company is expected to begin investment and job creation in 2013; and the project shows a positive return to Michigan.

INCENTIVE OPPORTUNITY

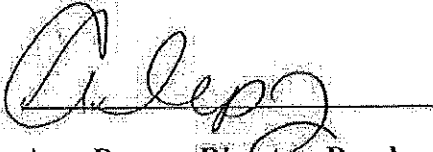
This project involves the creation of 135 Qualified New Jobs, and a capital investment of up to \$4.8 million in the City of Cadillac. The requested incentive amount from the MSF is \$1 million in the form of a performance-based grant. Please see below for more information on the recommended action.

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 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

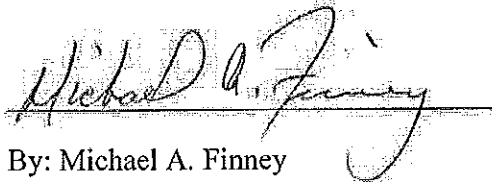


Amy Deprez, Director, Development Finance

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 of the MSF State Treasurer Director, are required for this commitment under the MBDP:

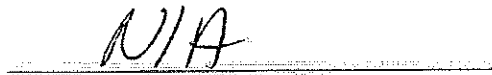
Michigan Strategic Fund



By: Michael A. Finney
Its: Chairman



By: Karla K. Campbell
Its: Fund Manager



By: Andy Dillon, State Treasurer
Its: Director

Rec Boat Holdings, LLC



**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: 4/19/2013

1. **Company Name:** Rec Boat Holdings, LLC ("Company" or "Applicant")
2. **Company Address:** 925 Frisbie Street
Cadillac, Michigan 49601
3. **Project Address ("Project"):** Same as Company Address
If different than above
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:** 436
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.
7. **Total Qualified New Job Creation:** 135
(above Base Employment Level)
The minimum number of total Qualified New Jobs the Company shall be required to create in Cadillac (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 MDDP Incentive Award, shall be included in the final Agreement.

- a. Start Date for Measurement of Creation of Qualified New Jobs: Signed Terms Sheet
- 8. Company Investment: *Up to \$4.8 million in building renovations, machinery and equipment purchase, special tooling, furniture and fixtures, computers, and other personal property (working capital) or any combination thereof, for the Project.*
- 9. Qualified Investment: \$1,250,000. The total minimum amount of the required Company Investment in Michigan related to the project, which at a minimum must include the following: Special tooling related to the Scarab and Glastron boat lines ("Qualified Investment"). Investment made after the date of the executed Term Sheet and no later than March 31, 2014 will be considered as 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 Cadillac
 - 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 P.A. 198 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 MDDP 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 have maintained the amount of the required Qualified Investment and] otherwise be in compliance with all terms and conditions of the final Agreement, and further shall include:
 - a. Disbursement Milestone 1: Up to \$800,000 Upon demonstrated support that the Company has maintained the Base Employment Level; upon demonstrated creation of 25 Qualified New Jobs above the Base Employment Level; demonstrated support that the Company has completed



the Qualified Investment for the project; verification that the special tooling referenced in the Qualified Investment has been placed at the Project; and verification of final approval of municipality support by no later March 31, 2014.

- b. Disbursement Milestone 2: Up to \$100,000 Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 50 additional Qualified New Jobs above the Base Employment Level, by no later than March 31, 2015.
- c. Disbursement Milestone 3: Up to 100,000 Upon completion of Disbursement Milestone 1 and Disbursement Milestone 2, and upon demonstrated creation of 60 additional Qualified New Jobs above the Base Employment Level, by no later than March 31, 2016.

12. Term of Agreement: Execution of Agreement to March 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. MBT Jobs Tax Credit Amendment:

The Company agrees to amend their existing MEGA credit #620 as amended (Resolution 2010-017) to reduce the allowable Qualified New Job ceiling to 300 from 2,320. All other aspects of the MEGA credit will remain unchanged. The Modification Application in final format will be required prior to the execution of the BDP Grant Agreement, and will be presented to the MSF Board for recommendation of approval at the next scheduled meeting.

16. 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 to 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 April 22, 2013, the MEDC may not be able to proceed with any recommendation to the MSF.

Rec Boat Holdings, LLC

By: 

Printed Name: Roch LAMBERT

Its: PRESIDENT

Dated: 4-19-13

Acknowledged as received by:

Michigan Economic Development Corporation

By: 

Printed Name: Kenneth Murdoch

Its: DEM

Dated: 4/22/13