



Ann Arbor

MICRO LOAN FUND For Innovative Start-up Companies

DEFINITION AND PURPOSE

The Ann Arbor/Ypsilanti SmartZone through the Local Development Finance Authority and Ann Arbor SPARK have established the Ann Arbor Micro Loan Fund (the Fund). The mission of this fund is to support innovative, high-growth start-up companies in the city of Ann Arbor as they near commercial viability. The focus is on companies that are creating innovative ideas and solutions in the areas of:

- Advanced automotive, manufacturing, and materials
- Alternative energy
- Homeland security and defense
- Life sciences
- Information technology
- Web 2.0, social networking
- B2B and B2C technology services and products

The purpose of the Fund is to accelerate company development by providing access to early-stage capital to extend the personal investment of entrepreneurs and their own finance network during the critical stage when they are developing their businesses to the point of readiness for outside investment and sales. Companies are required to participate in a due diligence investigation by Ann Arbor SPARK, thereby professionally identifying and addressing competitive, financial, regulatory and related risks through the screening process. Experienced staff or consultants will actively help qualified companies prepare for the investment process.

Emerging businesses still in the Investigation Stage often require small infusions of capital, in addition to personal and family funds, to meet critical commercialization milestones and satisfactorily address key questions which investors pose as a condition of investment. A small amount of funding can provide the companies with the resources they need.

This document addresses the Micro-loan qualifications, process, and criteria for companies wishing to apply for investigative funds, capped at fifty thousand dollars (\$50,000), to achieve milestones that will make the company more attractive to equity investors or achieve first sales. Micro loan funds can be used to further flesh out a competitive analysis, prepare financial *pro formas*, develop plans to cross regulatory hurdles, finish a prototype, complete a market study, travel to customers or partners, buy materials to complete an order, or other issues that are typically required to achieve commercialization.

Subordinated loans will be for amounts between \$10,000 and \$50,000 without needing a match. SPARK will actively follow-up with companies to ensure the reporting requirements are completed.

SPARK will review deal submissions as submitted and forward applications to its Business Accelerator Advisory Board to recommend funding or not. They may recommend an amount different than the request. They will provide constructive feedback for all proposals as an added value. The review criteria will assess the Company's potential to become a viable, robust business, and ultimately repay the loan. Funded companies will continue to work with SPARK for mentoring and business acceleration services. Just as traditional seed investors must provide their portfolio companies with hands-on help, direct involvement by SPARK will ensure that the deal is actively managed to agreed-upon milestones and thereby enhance the chance for success of each new venture funded.

CRITERIA

Loan funds are directed mostly toward activities between working prototype and first sales. Examples of eligible activities/projects would include but not limited to: intellectual property applications, scaling product manufacturing and testing, marketing and sales, partner relations, and customer attraction. It is assumed that these Companies will be past the concept development and analysis phase, and have very specific needs to achieve commercialization milestones to meet the requirements of an investor or to close initial sales.

A company can only be approved for a loan once. Although a single investment decision will be made for each company, a company may reapply for funding one additional time if initially rejected.

All rights to documents and plans will be held by the client company. In the event of default it is not anticipated that the Fund will take intellectual property as collateral.

A background check will be performed on founders and key executives with significant investment in the company. A search will be conducted for felony convictions and bankruptcy. Key employees with a poor record will not be considered. Background checks will be completed only for companies who are receiving funding, and will be paid by SPARK.

APPLICATION PROCESS

- Company applies on-line at www.annarborusa.org
 - SPARK Business Accelerator checks for completeness and prior submission
 - Distributes material to BA Advisory Review Board (Reviewers)
 - A scoring sheet will be used to evaluate and determine recommendation
 - i. Forward yes/no result to company with recommended amount of loan
- If loan approved SPARK will submit Promissory Note and handle closing
 - Conduct Background check
 - Execute documents on behalf of fund
 - Make payment(s)

Loans will range from \$10,000 to \$50,000 from the fund.

Companies must meet the following criteria before applying for funding:

- Be located in the city of Ann Arbor
- Have the rights (ownership or license) to innovative technology, or be seeking a strong IP position
- Meet the definition of a small business (per the SBA)
- Funding is to be used for the development of a business that is focused on the commercialization of innovative new product or service
- Loans may not be made into a publicly held company, but may be utilized to spin technology out of a public company and establish a new private entity.
- Have potential for rapid growth with majority of future sales revenue outside the state

The submission package must include:

- Business plan (maximum 10 pages)
 - Company overview
 - Market information
 - Operations
 - Product description
 - Summary of Management talent
- Separate documents
 - Financial proforma including forecast for next 12 months and current balance sheet
 - Certificate of Good Standing from the state of Michigan
 - Use of funds
- Strategy for follow-on funding

The Reviewers will review the application and proceed along one of three paths:

- Reject application – Summary report provided to applicant stating reasons for rejection. Companies may apply twice for review. If rejected twice, the company is no longer eligible to apply for substantially the same business.
- Approve the company for funding. Reviewers may recommend loaning in tranches
- Approve a loan but at a different amount

Seven key criteria will be covered and rated on a calibrated scale of 1 to 5. Reviewers will provide written commentary as well as numeric scores. Summary reports will be provided to every applicant.

Scoring Sheet

REVIEW CRITERIA	BASELINE	RATING (1-5)	COMMENTS
Description of Product or Service	Describe the product or service completely, concisely and explain why there is a need for the product or service? What are the technological risks?		
Competitors & Competitive Advantage	Explain why the product or service is better than the competition based on features and/or price. Does the summary identify the current competition including status quo? Is current and future competition identified and evaluated for weakness or significant barriers?		
Customers, Revenue & Business Model	Is customer value quantifiable, high and recognizable? Is there an ROI case and urgency to act? Define the first customer segment and economic buyer. Are product price points identified? Gross Margins?		
Market Size	Estimate the current target and addressable market size. Is it large and growing market proven and quantifiable? Does the plan show a path from a protected niche to a main street market?		
Management	Identify the key team member(s) and/or the skills needed to run this type of business and additional hires sought? Is there a structure for the organization?		
Milestone Plan & Use of Funds	Is there a reasonable milestone event with date that the plan is geared to achieve? How will the capital be used?		
Financials	Are plans based on realistic assumptions and have high returns? Is there at least a P/L for one year? Does it contain reasonable, justifiable projections for 2-3 years with assumptions explained?		
Total Score			

What is your investment recommendation? YES ____ NO ____

Amount _____

A Promissory Note will be used for the loan. The note will not require a personal guarantee and will be subordinate to any current or future debt from commercial institutions or private investors.

Before actual funding occurs the following documents will be provided and placed in SPARK's files:

- Background Check Reports
- Certificate of Good Standing with Michigan
- Executive Summary
- Promissory Note

If a loan is provided, the following information will be required of each successful company, in addition to any specific milestone information on an annual basis for five years:

1. Number of new patents, copyrights, trademarks applied for and issued
2. Annual sales/revenues
3. Number of new jobs, existing jobs, and projected new job growth
4. Average salaries
5. Follow-on investment figures and other metrics to gauge the positive effect on Michigan's progress toward building a competitive edge technology economy
6. The total number of new licensing agreements by institution and the number of new licensing agreements entered into with these firms.
7. Products commercialized.

Timeline

The Fund will accept applications at any time. Requests, if complete, will be forwarded for review within one week. Reviews are normally completed in four to six weeks. *Total time for decision and funding should be less than 60 days.*

Deal Rejection

If a deal is rejected a company may reapply at any time, but only once. The company will provide the following documents to be reviewed.

- Updated Business Plan with changes highlighted
- A maximum five page response to the issues raised in the commentary from the Reviewers

Conflict of Interest

In those instances where SPARK does not have an equity interest in the company, the staff can focus on the development of these start-up companies without concern about conflict-of-interest due to potential organization, corporate, or personal gain. The loans for the companies will allow the companies to pay for services needed. However, should any conflict-of-interest be made known or perceived by others, the individual will advise SPARK, which will in consultation with the Reviewers determine appropriate action.