



## MICHIGAN PRE-SEED CAPITAL FUND MICRO LOAN PROGRAM

Michigan's Smart Zones - collaborations between universities, industry, research organizations, government, and other community institutions - have formed a consortium to establish the Michigan Pre-Seed Capital Fund (the Fund). The mission of this fund is to support high-tech, high-growth start-up companies throughout Michigan as they near commercial viability. The focus is on companies that are creating the newest technologies in the following competitive areas:

- Advanced automotive, manufacturing, and materials
- Alternative energy
- Homeland security and defense
- Life sciences

The Pre-seed Fund is now addressing the need for "investigative" capital through a microloan program to help companies 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, or other issues that are typically required by investors before they will invest.

Loans will be for amounts between \$10,000 and \$50,000 without needing a match. Each independent SmartZone is responsible for due diligence of the start-up company and submit only those opportunities which meet an agreed upon set of defined criteria for a loan. Two SmartZones, Automation Alley and the West Michigan Science and Technology Initiative (Reviewers) will evaluate these early stage, pre-revenue company proposals. They will also actively follow-up with companies and their respective SmartZones to ensure the reporting requirements are complete.

Automation Alley and WMSTI will review deal submissions as submitted and 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, high growth Michigan-based business, and ultimately repay the loan. Funded companies will continue to work with their referring SmartZone for mentoring and business acceleration. The SmartZone will be responsible for providing information about milestone progress to the Administrator. Just as traditional seed investors must provide their portfolio companies with hands-on help, direct involvement by SmartZones will ensure that the deal is actively managed to agreed-upon milestones and thereby enhance the chance for success of each new venture funded.

Award funds are directed mostly toward activities between proof of principal and working prototype. Examples of eligible microloan funding activities/projects would include but not limited to:

- intellectual property investigation-FTO (direct funding for IP protection is not eligible)
- market assessments, strategy and competitive analysis
- building financial proformas
- technology assessments
- prototype development and testing
- partner relations
- first customer attraction

It is assumed that these Companies will be past the concept development and analysis phase, but have very specific needs to achieve commercialization milestones to meet the requirements of an investor. For example, one goal for this loan would be that the company would find a match for an application for investment from the Michigan Pre-Seed Capital Fund. Approval of this loan does not, however, guarantee approval for investment by the pre-seed fund.

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

Companies must meet the following criteria before applying for funding:

- Be located in Michigan
- Have the rights (ownership or license) to innovative technology, or be seeking a strong IP position
- Be pre-revenue
- Funding is to be used for the development of a business that is focused on the commercialization of technology of interest to the 21<sup>st</sup> Century Jobs Fund (see definitions of those sectors at <http://www.michiganadvantage.org/targeted-initiatives/21st-century-jobs-fund/default.aspx>)
- Loans may not be given for 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 and sales over \$10 million annually in five years.

The submission package must include:

- Business Definition Paper (no more than 10 pages)
  - Company overview
  - Market information
  - Operations
  - Product description
  - Summary of Management talent
  - Use of funds
  - Strategy for future funding/financing
- Separate financial workbook
  - Current balance sheet
  - 12 month P&L projection
  - Multi year cash flow projection (3-5 years)
- Bio/resume of founder and top management team (2 pages maximum for each)
- Certificate of Good Standing from the State of Michigan
- Cover letter recommendation by SmartZone on milestones to be accomplished and role the SmartZone will commit towards facilitating achievement of such milestones

A Subordinated 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 the Administrators files:

- Background Check Reports on founders (completed by Fund Administrator)
- Certificate of Good Standing with Michigan Business Definition Paper (completed by company)
- Promissory Note (executed with Fund Administrator)

After investment the following information will be required of each successful company, in addition to any specific requested milestone information. The information will be collected through an annual survey for five years from the year the microloan is approved:

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.

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