

Michigan Innovate Capital Fund Program Guidelines

Purpose of the Program

The MSF desires to make awards through the Michigan Innovate Capital Fund (“MICF” or “Program”) to non-profit organizations to operate early-stage funding programs that invest in pre-seed and start-up stage competitive edge technology companies that require capital in the earliest stages of the commercialization process. The primary objectives of the Program are to:

1. Increase the amount of capital being invested in Michigan-based competitive edge technology companies that are in the earliest stages of commercialization.
2. Create a capital climate that supports the development, retention, and attraction of venture-backed competitive edge technology companies in Michigan.
3. Build a pipeline of high-growth, competitive edge technology company deal flow for the subsequent stages of funding, attracting investments from inside and outside the State of Michigan.

Program Overview

The MSF created the MICF to provide awards to eligible non-profit organizations that will be used to make investments in pre-seed and early-stage companies in accordance with the Investment Criteria set forth below. The MSF intends to award multiple awards through two tracks under the MICF: 1) a track for Eligible Applicants (eligibility requirements as defined below) that have previously received financial support from the MSF or Michigan Economic Development Corporation (“MEDC”) for pre-seed fund activities (“Established Applicants”) and 2) a track for Eligible Applicants that have not previously received financial support from the MSF or MEDC for pre-seed fund activities (“Emerging Applicants”).

Both Established Applicants and Emerging Applicants are eligible to receive initial awards of up to \$5,000,000 with the option to increase the award amount during the term of the award, subject to available funding and approval of the MSF.

Eligibility Requirements

All applicants to the MICF must meet the following eligibility criteria:

- Be a Michigan nonprofit corporation, properly registered and in good standing with the State of Michigan.
- Maintain a physical presence in Michigan, which may include a facility that is either owned or leased by the applicant.

- Demonstrate an ability and willingness to invest in the earliest (pre-seed) stages of a company's development, particularly in competitive edge technology-based companies with high growth potential in the very early phases of commercialization.

Additional Eligibility Requirements

Track 1: Established Applicants

In addition to the Eligibility Requirements listed above, Established Applicants MUST meet the following additional eligibility criteria:

- Be a nonprofit entity that has previously received financial support from the MSF or MEDC for pre-seed and/or first capital fund activities.
- Have a successful track record making and exiting from investments in Michigan-based entrepreneurial ventures.
- Actively deploy capital exclusively in the State of Michigan and provide mentorship support to portfolio companies.
- Align the objectives of the Fund with the MEDC's Strategic Plan.

Track2: Emerging Applicants

In addition to the Eligibility Requirements listed above, Emerging Applicants MUST meet the following additional eligibility criteria:

- Be established by a nonprofit entity that has not received previous MSF or MEDC funding in the pre-seed investment area.
- Focus on industries that have strategic benefits regionally and to the State of Michigan.
- Deploy capital exclusively in the State of Michigan.
- Be able to show how this Fund will create jobs and commercialize product(s) within one or more of the competitive edge technology sectors where Michigan has a distinct competitive advantage to drive sustained, long-term growth as well as tools and sustainment programs in sectors that drive regional impact.

Preference will be given to fund(s) based in underserved locations and that clearly address the funding gap in underrepresented industries.

Evaluation Criteria

Applications for funding under the MIFC will be evaluated on the following criteria:

- Ability to originate, process, and monitor equity investments, loans, and other funding instruments to companies.
- Strategy and/or prior experience in providing portfolio or grant management to companies that receive a pre-seed investment.
- Prior record of statewide reach and collaboration with the existing MEDC SmartZone network and Michigan institutions of higher education.

- Articulated strategy for identification of opportunities for investment into early-stage, competitive edge technology.
- Ability to provide business acceleration services to companies.
- Knowledge and experience with Michigan’s entrepreneurial ecosystem, strong relationships within the ecosystem, and a platform for collaboration that demonstrates an ability to market and promote Michigan entrepreneurial programs and services in order to expand the investment base in Michigan.
- Experience leveraging a qualified volunteer network to deliver a screening and due diligence process from the investment community with successful experience in venture financing or growing competitive edge technology companies.
- Applicant’s plan for supporting companies with activities that include, but are not limited to, prototype development and testing, customer and partnership sourcing, continued pre-clinical data compilation, achieving staffing requirements, and securing following on funding through a variety of sources.

MICF Award Terms and Conditions

All awards made under the MICF will include the following terms and conditions:

- Award Term:** Initial term of five years, with the option to extend the term for an additional five years upon approval of the MSF.
- Use of Funds:** Awardees shall use awards to make pre-seed investments in accordance with the Investment Criteria set forth below.
- Disbursements:** An initial disbursement may be made within 30 days of execution of the award agreement. Subsequent disbursements for pre-seed investments may be requested by the awardee after it has demonstrated that it has expended at least 90% of funds previously disbursed for pre-seed investments. Administrative Expenses (defined below) will be paid on a reimbursement basis.
- Administrative Expenses:** No more than 15% of the award (including any increases to the initial award amount that the MSF may approve from time to time) may be used for administrative costs incurred by the awardee. Administrative Expenses include expenses associated directly with program management, client relations, and fund management expenses, and overhead such as accounting for financial transactions, facility operations and other traditional overhead expenses.
- Repayment:** Awardees to repay entire award amount plus a fee equal to one percent (1%) of the total award amount (including any increases to

the initial award amount that the MSF may approve from time to time).

Reinvestment of Returns: During the term of the award, the awardee must reinvest Annual Returns. “Annual Returns” means the sum of the earnings, royalties, return on investments, return of principal, payments made, or other money received under agreements related to investments made by the awardee, calculated on an annual 12-month basis for the immediately preceding annual 12-month period ending June 30.

Upon expiration of the term and until the earlier to occur of (1) repayment to the MSF of the award amount plus a fee equal to one percent (1%) of the total award amount (including any increases to the initial award amount that the MSF may approve from time to time) or (2) the tenth anniversary of the end of the term, the awardee shall use the Annual Returns as follows:

- (i) First, 25% of the Annual Returns shall be reinvested in eligible companies in accordance with the Investment Criteria.
- (ii) Second, after the 25% reinvestment requirement is met, up to an additional 15% of the Annual Returns may be used to cover the awardee’s Administrative Expenses related to reinvestment of the Annual Returns.
- (iii) Third, payment to the MSF based on the following sliding scale:

Amount of Annual Returns	Percent to the MSF
\$0 - \$1,000,000	10%
\$1,000,000.01 - \$2,000,000	20%
\$2,000,000.01 - \$3,000,000	30%
\$3,000,000.01 - \$4,000,000	40%
\$4,000,000.01 - \$5,000,000	50%
Over \$5,000,000.01	60%

- (iv) Fourth, the remaining balance of the Annual Returns payable to the awardee.

The award shall be memorialized by a final written agreement that includes terms and conditions required under the MSF Act, the MICF Program Guidelines, MSF approval, and any other

applicable laws. The agreements shall also include a provision for repayment due to breach of the written agreement or failure to meet measurable milestones.

Investment Criteria

Recipients of an award under the Program must use the funds in accordance with the following investment criteria and requirements:

- **Investment Requirements:**
 - Statewide accessible program, investments not regionally limited.
 - Awardee shall make investments in Eligible Companies (defined below).
 - Awardee may invest a maximum of \$250,000 per Eligible Company.
 - Investments may be in the form of equity and/or convertible securities (including Notes and SAFEs).
 - A minimum of 75% of the available capital (determined on an annual basis) must be invested in Eligible Companies that have received less than \$2,500,000 in private sector investments and less than \$1,500,000 revenue in the immediately preceding 12-month period. These terms apply to the initial investment only.

Eligible Company Criteria

- Must be properly formed as a Michigan corporation or authorized to transact business in Michigan, and in good standing (see the [Corporations Online Filing System](#) maintained by the Department of Licensing and Regulatory Affairs to confirm proper registration and status).
- On a scalable path that has strong potential for job creation and diversifying the Michigan economy.
- Company is a for-profit LLC, C corporation, or S corporation that has been in business for seven years or less and with key founders and a majority of its full-time employees located in Michigan.
- Demonstrated execution against business model and is in the earliest stages of commercialization in one or more of the following competitive edge technologies as defined in Section 88a of the MSF Act, MCL 125.2088a:
 - Advanced Automotive, including mobility;
 - Advanced Manufacturing;
 - Advanced Materials;
 - Information Technology;
 - Agricultural Processing Technology;
 - Alternative Energy;
 - Homeland Security and Defense Technology;
 - Life Sciences, including medical device technology; or
 - Other Innovative Technologies