

**STRATEGIC ECONOMIC INVESTMENT AND COMMERCIALIZATION BOARD
NOVEMBER 13, 2008 MEETING**

ADOPTED MEETING MINUTES

A meeting of the Strategic Economic Investment and Commercialization (SEIC) Board was held at the Michigan Economic Development Corporation (MEDC), 300 N. Washington Square, Lansing, Michigan, on November 13, 2008.

MEMBERS PRESENT: Dave Baumgarten; Mary Campbell; Mary Sue Coleman; Jim Croce; Michael Jandernoa; Robert Kleine; Stanley Pruss; Lynnette Rhodes; Ken Rogers; George Vande Woude; David Cole (via phone); Glenn Mroz (via phone); Michael Rao (via phone)

MEMBERS ABSENT: John Brown; John Dunn; David Baker Lewis; Irvin Reid; Lou Anna Simon; Dennis Wend

CALL TO ORDER: The meeting was called to order at 10:09 a.m. by Chairman Michael Jandernoa.

APPROVAL OF MINUTES: Mr. Jandernoa asked if there were any questions or comments regarding the minutes from the October 8, 2008 meeting. Being none, **Dr. Coleman motioned to approve the minutes as presented. Mr. Rogers seconded the motion.** The motion was approved unanimously – 12 ayes; 0 nays; 0 recused; 7 absent

PUBLIC COMMENT: Mr. Jandernoa opened the floor for public comment. There was no public comment.

COMMUNICATION: Ned Staebler, MEDC Vice President of Program Administration, advised the Board that letters had been received from Mary Sue Coleman, Ken Rogers, Michael Jandernoa, Stanley Pruss, and George Vande Woude recusing themselves from items on the agenda.

AWARDEE UPDATE:

[Recused: Mary Sue Coleman]

Resolution 2008-068: Velcura – Final Disbursement

Kapila Vigas, MEDC Managing Director of Program Administration, provided background information. Velcura Therapeutics Inc. is a biotechnology company located in Ann Arbor. Velcura's lead compound, VEL-0230, is an orally available, small molecule therapy for bone diseases in which normal bone homeostasis (i.e., bone cell equilibrium) is disrupted. As such, Velcura is developing VEL-0230 as a disease modifying anti-rheumatoid arthritis drug (DMARD). The molecule inhibits immune-mediated inflammation activity and also stimulates bone formation and retards its loss. Additionally, VEL-0230 is a powerful Rheumatoid Arthritis (RA) therapy in animal models. A successful Phase 1a clinical trial of VEL-0230 in healthy human subjects has been completed. Velcura is now planning further clinical trials.

MEDC indicates that as of October 2008, Velcura has completed a successful Phase I study of its lead drug and all milestones proposed for the convertible note, provided a Certificate of Milestone Completion, and requested a disbursement of the final tranche of \$100,000. The completion of the final milestone was confirmed by reviewing the Report for Clinical Study provided by the contracted clinical trial conductor. Also reviewed are audited financial statements, and interim financials for the current year. Finally, a site visit was conducted including a tour of the facility, other infrastructure, and staff inspection.

Recommendation: MEDC staff recommends that the SEIC Board approve the final loan disbursement to Velcura Therapeutics, Inc., in the amount of \$100,000.

Mr. Jandernoa asked if there were any questions from the Board. Being none, **Ms. Campbell motioned approval of Resolution 2008-068. Mr. Croce seconded the motion.** The motion was approved unanimously – 11 ayes; 0 nays; 1 recused; 7 absent

[Returned: Mary Sue Coleman]

[David Cole joins the meeting by phone]

Resolution 2008-069: Solidica – Change of Milestones

Kapila Vigas provided background information on this action.

Solidica, headquartered in Ann Arbor, is a start up technology solution provider founded in 2000. Solidica received a 21st Century Jobs Fund award, in the amount of \$1,295,259, for the acceleration and expansion of its unique ultrasonic consolidation (UC) technique into the fabrication of medical devices. The project was to build on a previous Michigan Technology Tri-Corridor (MTTC) program in which Solidica worked to generate proprietary new technology that expanded the market for the core product line.

Solidica had planned to commercialize its sensor and embedded diagnostic technology into the medical device market. However, as part of its research efforts, the company discovered that the building-block components for the device are far too large in physical size for implantation into the human body. This latency in physical size reduction has led Solidica to explore adjacent market opportunities that would still leverage the same sensor technology proposed in the 21st Century Jobs Fund application. Solidica would like to keep this project moving forward by exploring other non-medical markets, particularly Homeland Security and Defense. The company believes that there is a large untapped demand that has the greatest potential for success. The company would like to actively pursue the Homeland Security and Defense market by amending its key milestones three and four as follows: 1) Milestone 3 – Develop contracts in the Homeland Security and Defense market; and 2) Milestone 4 – Secure commercial and purchasing agreements from military integrators and vehicle manufacturers. The Company has successfully completed its original milestones one and two.

Recommendation: MEDC staff recommends approval of the milestone changes as outlined above. The technology has been successfully commercialized, through new and expanded markets, as confirmed through a due diligence review, and the MEDC believes that the milestone modification request reflects justifiable adjustments of developmental direction based on the market potential in the area of Homeland Security and Defense.

Mr. Jandernoa asked if there were any questions from the Board. *Discussion ensued regarding the risk of proceeding with the milestone change and also why so much money was spent before it was discovered that the product could not be used as originally proposed. Concerns were shared over the health of the company, at which point Jie Mi, MEDC Portfolio Manager for this company, confirmed to the Board that the company is very healthy and pointed out that they had also just been selected as one of the 17 awardees in the current 2008 competition.* Being no more questions, **Dr. Coleman motioned approval of Resolution 2008-069, making note that the process used for managing these companies should be looked at more closely to see if there were any questions that could have been asked to help discover this sooner before so much money was expended. Mr. Croce seconded the motion.** The motion was approved unanimously – 13 ayes; 0 nays; 0 recused; 6 absent

Mr. Jandernoa then asked that staff also review the comments made by the peer reviewers in the 2006 competition to see if anything was specifically mentioned about the size of the product.

[Recused: Michael Jandernoa; Stanley Pruss; George Vande Woude]

[Mary Sue Coleman assumed the role of Temporary Chairperson]

Resolution 2008-070: Western Michigan University – Building 126

Dr. Coleman provided background information on the following two actions.

The Southwest Michigan Wet Lab Consortium (including WMU, Southwest Michigan First (SWMF), and the City of Kalamazoo) was formed to stimulate workforce development by expanding and accelerating the existing life science capacities in Kalamazoo. In response to the 2006 Commercialization Support Services RFP, WMU (with collaboration from the Consortium) applied for a grant. The SEIC Board granted \$2,000,000 to WMU to redevelop a Pfizer facility (Building 126) in downtown Kalamazoo. The \$2,000,000 was proposed to be part of a \$10M project that included acquisition and capital costs to redevelop the facility. The facility would accommodate the needs of multiple life science tenants to reinvigorate the local economy and stimulate growth in the life sciences sector. After receiving the award, WMU chose to suspend the project but requested and received an amendment to the Grant to allow for time: 1) to identify a new purchaser and operator of Building 126; and 2) for the Consortium to provide a revised business plan for the facility.

Recently MPI Research announced that they would create 3,300 new Kalamazoo-area jobs during the next five years, including at least 400 in downtown Kalamazoo. As part of this downtown effort, MPI has committed to spending \$30M to upgrade and equip two downtown buildings including Building 126. MPI is working with Pfizer, the City of Kalamazoo, and Southwest Michigan First on the project that includes Building 126. MPI has been identified as the new purchaser and operator of Building 126 and has assumed the lead on the project, and WMU is no longer involved in the project. WMU therefore requests that the Grant for \$2,000,000 be withdrawn.

Dr. Coleman asked if there were any questions from the Board. *Mr. Croce asked why no money had been disbursed by now. Dr. Coleman explained that the university was apparently being prudent and didn't spend any of the money until their match dollars were in place, which was never accomplished.* Being no more questions, **Mr. Rogers motioned approval of Resolution 2008-070. Treasurer Kleine seconded the motion.** The motion was approved unanimously – 10 ayes; 0 nays; 3 recused; 6 absent

[Returned: Michael Jandernoa; Stanley Pruss; George Vande Woude]

[Michael Jandernoa reassumed the role of Chairperson]

[David Cole disconnects for the remainder of the meeting]

21st CENTURY JOBS FUND COMPETITION:

[Recused: Mary Sue Coleman; Ken Rogers]

Resolution 2008-071: Cielo MedSolutions – Withdrawal of Application from Competition

Ned Staebler provided background information on the following one action.

Mr. Staebler explained to the Board that since the initial 17 awardees for the competition were announced, one company, Cielo MedSolutions has withdrawn from the competition and that the Board can formally accept the withdrawal. He also updated the Board that the remaining awardees are undergoing the required final due diligence by MEDC Staff to ensure compliance with the RFP and statutory requirements.

Mr. Staebler also reported that the guidance given to MEDC by the Due Diligence subcommittee was that awardees with unconfirmed financial matches must have signed investment documents by January 8, 2009 or their award could be subject to rescission by the Board.

Mr. Jandernoa asked if there were any questions from the Board. *Discussion ensued regarding some of the confusion experienced by applicant companies. Ms. Campbell shared that she had a company raise two questions: 1) They weren't clear on when the measurement would be made on the percentage of*

equity; and 2) They interpreted one of the provisions to mean that if they haven't paid the loan back by the time their company becomes a public company, they are required to then pay back 10 times the original loan amount. Mr. Staebler and Ms. Viges offered clarification on these two concerns, and then Mr. Jandernoa suggested that staff should communicate these clarifications publicly as other companies may also be interpreting them incorrectly. Being no more questions, **Dr. Vande Woude motioned approval of Resolution 2008-071. Mr. Baumgarten seconded the motion.** The motion was approved unanimously – 10 ayes; 0 nays; 2 recused; 7 absent

[Returned: Mary Sue Coleman; Ken Rogers]

Resolution 2008-072: Approval of Pre-Seed Fund Request for Proposals

Ned Staebler provided background information on the following two actions.

Mr. Staebler explained to the Board that the draft RFP provided to them was the result of the RFP Subcommittee meetings that had been taking place in the prior months. He then proceeded to run through the document page by page, noting the various pieces of the RFP. *Discussion ensued regarding the matching dollars requirement. Mr. Rogers commented that with the economy being like it is right now, he would recommend that the requirement actually only be 50 cents on the dollar. Discussion continued regarding the requirements on the funding including the number of days for verification of the match. Then, Ms. Campbell suggested the possibility of splitting the funding up – a portion of funding could be available that didn't require matching funds, and then another portion of funding would. After further discussion, Ms. Campbell asked if there was anyone present at the meeting that could provide some experienced perspective on pre-seed funding.*

Skip Simms, Executive Director of the Pre-Seed Fund with Ann Arbor SPARK acknowledged to the Board his availability to answer their questions. Mr. Simms proceeded to explain to the Board the application process used by his organization to award pre-seed funds, as well as share some highlights of their experience in this area. Discussion then ensued regarding the SmartZone network and its importance in the process.

Discussion continued and moved to the funding distribution among the four sectors. It was suggested that the Board attempt to somehow gain a better understanding of why the area of Alternative Energy isn't getting the focus that the other three sectors seem to receive.

Mr. Jandernoa suggested that at the December meeting, the Board discuss what has been done in the area of Alternative Energy and what the Board would like to do/see happen.

With discussion coming to a close, Mr. Staebler brought the Board back to the first of two actions required by the Board – approval of the final draft version of the Pre-Seed Fund Request for Proposals. He explained that the Board had two options: 1) Decide on the match requirement now and then vote to approve the document with that match number; or 2) Leave the match requirement blank, hold the public hearing, and then based on comments received at the public hearing, make the necessary final changes and decisions to the document at the January meeting. The Board agreed that the preference was to present a completed RFP to the public for review.

Ms. Campbell made a two-part motion: 1) Up to \$25,000 in funding with no match requirement; 2) Over \$25,000 requiring a 1:1 match. Some of the members then commented that there was agreement with the first part of the motion but wanted the match requirement on the second part of the motion to only .5:1 (50 cents on the dollar). After discussion continued, Mr. Jandernoa asked the Board to take a vote to decide which match requirement would be included in the RFP.

VOTE 1: 1:1 Match – 4 ayes; 8 nays; 0 recused; 7 absent

VOTE 2: .5:1 Match – 9 ayes; 3 nays; 0 recused; 7 absent

John Walter, Chief Compliance Officer, noted that in order for any Board action to pass, it required support by a majority of the entire Board, not just of those present. Therefore, because neither match requirement option could be passed, the Board decided they would approve the draft RFP document with the match requirement left blank and would address the issue following the public hearing scheduled to take place December 3, 2008.

Mr. Jandernoa emphasized that staff should allow those members not present the benefit of the discussion that took place at the meeting by effectively communicating to them and allowing them to share their feedback based on that conversation.

Being no more questions, **Ms. Campbell motioned approval of Resolution 2008-072 with the amount of the match requirement left blank. Mr. Rogers seconded the motion.** The motion was approved unanimously – 12 ayes; 0 nays; 0 recused; 7 absent

Resolution 2008-073: Approval of the Pre-Seed Fund Notice of Public Hearing

Mr. Jandernoa asked if there were any questions from the Board. Being none, **Treasurer Kleine motioned approval of Resolution 2008-073. Ms. Campbell seconded the motion.** The motion was approved unanimously – 12 ayes; 0 nays; 0 recused; 7 absent

OTHER BUSINESS: Mr. Jandernoa opened the floor for any additional business to be addressed. *Mr. Jandernoa explained to the Board that they should begin discussions regarding the format for the 2009 competition at the December meeting. Discussion ensued and it was suggested that the Board be provided with historical funding data analysis by sector, starting at the beginning of the program when it was the Life Sciences Corridor, to get an overall picture of what areas are receiving what percentage of funding. Additionally, it was asked that a scorecard be provided based on the results of that analysis to give the Board a better idea of what has worked and what hasn't. It was also suggested that the analysis look at funding matches and how our money has been leveraged. The analysis should include the number of new jobs added and milestones met for each company as well and the number of grants and loans awarded to each company*

Additionally, it was requested that the Board be provided with a status report of the Service Providers from the 2006 competition to find out where they stand in terms of their funding and what they need to keep operating. Finally, the Board requested that at the December meeting, information be presented highlighting all of the tools (programs) available to help companies succeed. This information was shared by Jim Epolito, MEDC President and CEO, a year ago in a joint informational session for the members of all of the Boards.

Ms. Campbell also asked if it would be possible to create a simple internet-based survey to send to all of the applicants in this year's round of competition. The purpose would be to get an idea of how well our process works or doesn't work and what areas need improving. The Board agreed that this would be an effective suggestion to follow through with.

With no more discussion items, Mr. Jandernoa introduced the newest member to the Board, Stanley 'Skip' Pruss. He is the new Director of Energy, Labor and Economic Growth and will be taking Keith Cooley's place on the Board.

ADJOURNMENT: Being no more discussion, the meeting was adjourned at 11:27 a.m.

I certify that these minutes reflect the actions taken by the Strategic Economic Investment and Commercialization Board at the November 13, 2008 meeting.

Dr. Michael Rao
SEIC Board Secretary