

ANN ARBOR/YPSILANTI SMARTZONE
LDFA
REQUEST FOR ADDITIONAL BUSINESS ACCELERATOR FUNDING
October 27, 2009

Ann Arbor SPARK (SPARK) is under contract with the Ann Arbor/Ypsilanti SmartZone LDFA to provide services to entrepreneurs and start-ups within the geographic boundary of the City of Ann Arbor, for the purpose of assisting with the creation and acceleration of innovation-based businesses.

The innovation-based entrepreneur resources provided by SPARK include:

- The SPARK Central Business Incubator which currently services over 45 actual and virtual tenants
- Over 150 annual events and programs focused on entrepreneurial education, the bi-annual SPARK Entrepreneur Boot Camp, networking, talent support, starting your own business assistance and marketing
- Business Acceleration services – consulting assistance for business strategy, IP acquisition, prototyping, marketing strategy, business plan refinement, and customer/partner introductions
- Funding identification and acquisition in the form of angel, microloan and pre-seed investment
- Customer identification and business development partnership support for Business Accelerator clients

Innovative companies served include the following industries:

- Life Sciences (medical devices, biotechnology, contract research organizations, medical IT, and pharmaceutical)
- Information Technology (web applications, software, social networking, and business-to-business and business-to-consumer products and services)
- Cleantech (alternative energy, transportation, energy storage and efficiency)
- Photonics (optics, imaging, lasers, communications and related automation)
- Advanced Materials (new materials, nano particles and coatings)
- Homeland Security & Defense (tracking and surveillance, advanced data collection, IT security)

Return on Investment:

From 2007 to date, the Ann Arbor SPARK Business Accelerator (BA) has provided business acceleration services to nearly 100 start-up companies. There were 180 entrepreneurs engaged in starting these new companies. Since their engagement with SPARK they have created more than 60 more jobs. In addition, the Business Accelerator companies have raised more than \$6.5 million in grants and \$9.2 million in equity funding for their businesses.

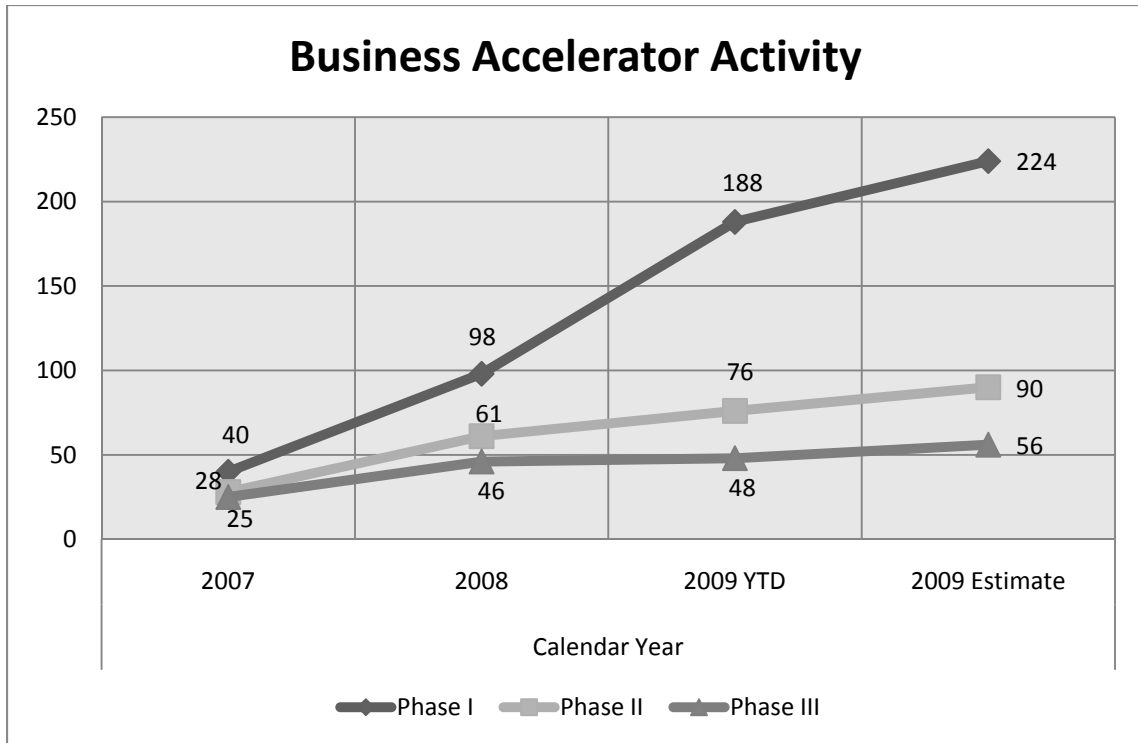
Since January 2009, SPARK has experienced enormous growth in demand for BBA) services. The core services are identified in the contract with the LDFA as Phase I, II and III. In the past two years, services provided by the LDFA through SPARK have expanded and are also contributing significantly to the activity and added pressure to the staff providing those services. These expanded services include:

- Phase I general inquiry for help from entrepreneurs
- More Phase II due diligence is required to identify and select the most promising opportunities to support
- Additional time being spent on companies in Phase III
- SPARK Central Incubator is now fully occupied with an additional 35 entrepreneurs using the incubator as virtual tenants
- Demand for the new microloan offering has garnered substantial interest, with five companies applying in the last three months and three loans being made

Need

At the current rate of demand for services offered, we forecast the budget for Phase III support will be fully deployed by January 2010. The Business Accelerator staff is currently working at maximum capacity.

Through a polling of similar organizations in the state, we have determined that our experience is not unique. Automation Alley, Oakland University INCubator, WMSTI in Grand Rapids and other SmartZones have shared with us that they have experienced a doubling or greater increase in activity. Other service providers like SBTDC and GLEQ have shared similar opinions. The U of M Office of Tech Transfer recently celebrated the fact they reached 350 new inventions from faculty and researchers this past year – a record-breaking number.



Part of the growth we're experiencing is the renewed IT sector. Over 50% of companies looking for assistance could be categorized broadly as IT. This growth may be driven by interest in social networking sites, health care products, and the web-based software-as-a-service model. Life Science companies now represent about 20% of companies looking for BA assistance, compared to two years ago when it was around 40%. Alternative Energy companies started surfacing this year and now represent about 15% of start-ups.

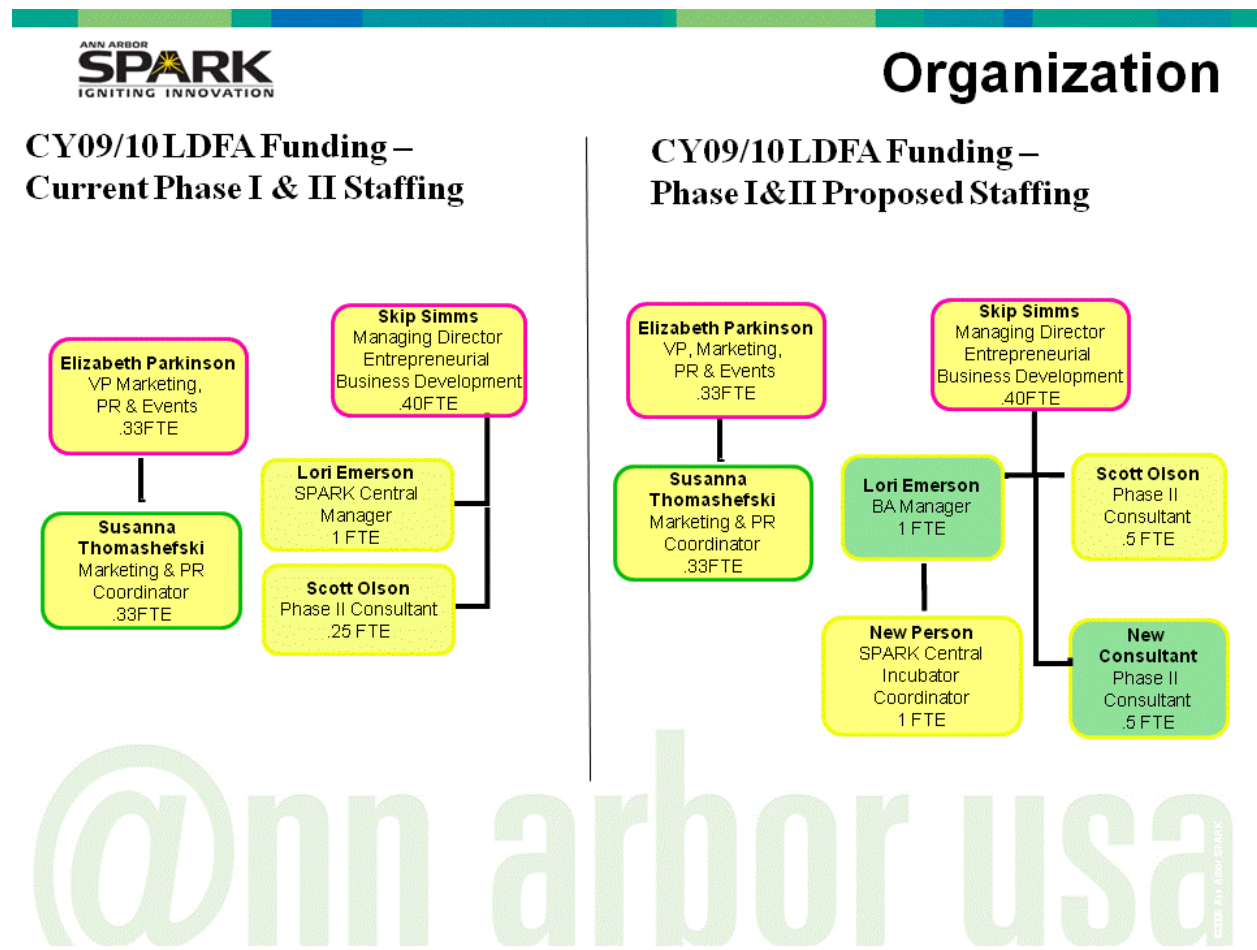
Use of Funds

Services offered by SPARK through LDFA funding are very service-intensive. We provide:

- Event and educational programs which require promotion, presenter recruitment, room set up, ordering food, registration, clean up and reconciliation.
- Phase I activity includes data intake, application review, contact with the entrepreneur, assessing the opportunity and need, and generating the required paperwork.
- Phase II due diligence requires additional reporting and meeting with entrepreneurs, some market assessment and referral checking.
- Phase III engagements are managed in conjunction with our consulting pool and require progress management, additional reporting, required documentation and processing payables and receivable.
- Microloan fund requires all of the Phase II and III activity plus managing the review board and execution of loan documents.

- The Incubator tenants require a screening process, data capturing about the entrepreneur and company, contract execution, responding to the needs of tenants, building maintenance, scheduling of facility, etc.
- Cantillon is administered with an outside contractor but we are the initial contact and manage the sign-up process.
- Although Boot Camp occurs twice a year, there is monthly activity related to camp, camp planning and the adjacent entrepreneur education programs which occur both pre-and-post- camp, a post-camp celebration, recruiting, and monitoring success.

The following is the organization chart for SPARK related to all Business Accelerator activity and the recommended organization structure, which adds one full time and one part time person.



The recommended changes are:

- Hire new Incubator manager to be responsible for the management of the incubator, event/program support, tenant liaison and Business Accelerator orientation.
 - Assist tenants with facility needs and manage access to facility and equipment
 - Schedule conference rooms
 - Prepare and manage all events from preparation, to set up and clean up

- Liaison with building landlord
- In partnership with SPARK finance, monitor tenant contract obligations
- Promote current SPARK Central Manager to Business Accelerator Manager with responsibility for managing all intake, deal flow, reporting, paperwork, surveys, meetings between companies (both BA clients and tenants) with staff and consultants.
- Add part time professional consultant to do initial triage of applicants in Phase I and perform Phase II due diligence. This person and the current part-time professional will equal one full time position.

Anticipated Outcomes

- Better manage the current pipeline level of BA clients
- Increase the pipeline of Boot Camp applicants
- Provide Phase III services to more clients
- Maintain SPARK Central incubator occupancy average at 80% capacity and increase services to tenants with additional mentoring and Phase III service

Budget

The budget increase reflects the addition of 1 ½ employees and the cost of consulting services in Phase III. Phase II due diligence activity will be absorbed by the recommended new hire. The Phase III amount is based on the past quarter’s run rate for services.

Average monthly Phase III expenditures to date – \$38,389

Run rate for year – \$460,672

Fiscal Year 2009/2010	Current	Proposed	Increase
SPARK BA Direct Staffing	200,000	280,000	80,000
Phase II (Due Diligence)	25,000	25,000	0
Phase III (Intensive Service)	275,000	450,000	125,000
Totals	500,000	755,000	205,000

Approval of this request puts the total contract budget for this year past the projected revenue, which means the fund balance will decline. Projecting this new budget amount out three more years with a small increase in most line items we show a continued draw from reserves until 2013 when expenses will again be below projected revenue.

Smart Zone LDFA				
<u>FY 2010 - 2014 FINANCIAL FORECAST</u>				
as of October 23, 2009				
(includes current request for increase in contract)				
	FYE 2010	FYE 2011	FYE 2012	FYE 2013
<u>INCOME STATEMENT</u>				

Revenues:				
Total Revenues (from City 3-6-09)	\$ 1,347,468	\$ 1,424,061	\$ 1,539,922	\$ 1,659,258
Expenditures:				
<u>Contracted Services</u>				
SPARK BA Direct Staffing	\$ (280,000)	\$ (288,400)	\$ (297,052)	\$ (305,964)
Phase II (Due Diligence)	(25,000)	\$ (25,750)	\$ (26,523)	\$ (27,318)
Phase III (Intensive Service)	(450,000)	\$ (463,500)	\$ (477,405)	\$ (491,727)
Micro Loan Program for Entrepreneurs	(275,000)	\$ (275,000)	(275,000)	(275,000)
A2 Angels	(25,000)	\$ (25,000)	-	-
Bus. Network Events-Hosted	(20,000)	\$ (20,600)	(21,218)	(21,855)
Bus. Network Events-Sponsorships	(20,000)	\$ (20,600)	(21,218)	(21,855)
Entrepreneur Educ.- Boot Camp & Grants	(45,000)	\$ (46,350)	(47,741)	(49,173)
Tuition Matching	(20,000)	\$ (20,600)	(21,218)	(21,855)
Cantillon Web-Based Education	(60,000)	\$ (61,800)	(63,654)	(65,564)
Total Contracted Services	(1,220,000)	(1,247,600)	(1,251,028)	(1,280,309)
<u>Other Projected Services</u>				
Marketing - P/R, Print, Websites	(65,000)	\$ (66,950)	(68,959)	(71,027)
Business Incubator	(140,000)	\$ (144,200)	(148,526)	(152,982)
SPARK Accounting	(45,000)	\$ (46,350)	(47,741)	(49,173)
Legal & Admin. Support	(65,000)	\$ (66,950)	(68,959)	(71,027)
Total Other Projected Services	\$ (315,000)	\$ (324,450)	\$ (334,184)	\$ (344,209)
Total Expenditures	\$ (1,535,000)	(1,572,050)	\$ (1,585,212)	\$ (1,624,518)
Net Increase/Decrease in fund bal.	\$ (187,532)	\$ (147,989)	\$ (45,290)	\$ 34,740
Memo:				

Fund Balance (6/30/2009) - beginning	\$ 468,240				
Fund Balance - ending	\$ 280,708	\$ 132,719	\$ 87,430	\$ 122,170	
* - year 1 from current financial report - years 2-5 from "Projected Capture of Taxable Value Report" from City of Ann Arbor March 6, 2009					
3% - cost of living increase in expenses each year					