

FREQUENTLY ASKED QUESTIONS

What are the criteria to qualify for an investment?

The company needs to be an early stage technology company in operation fewer than five years, legally established and registered with the State of Michigan. The company must be a non-public, for-profit entity and defined as a small business by the U.S. Small Business Administration (http://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf). The company will need to have a business plan, an executive summary and an investor presentation "pitch" deck and have consulted with the local Michigan SmartZone. The company should have revenue during the last 12 months of less than \$2.5 million excluding grants and federal contracts and be willing to agree to, in writing, to a Michigan "presence". Finally, the proposed use of funds need to be consistent with Pre-Seed Guidelines and the company has secured or has a commitment of a cash investment to match the financing request on a 1:1 basis.

How do I discuss a financing request with the Michigan Pre-Seed Fund?

The first step is to have a detailed executive summary and a comprehensive investor presentation "pitch" deck. We recommend that you contact the local Michigan SmartZone, discuss your financing needs, and have them review your materials before sending them to us. It is recommended to be referred by a SmartZone, the SBDC, or another investor who we have partnered with.

How soon will I hear something after I submit my initial materials?

Generally, we will respond within two weeks. At that time we will provide you with next steps.

When will I know whether the Fund will provide financing?

It is a mutual process of discovery and active discussion. Once we have completed a positive due diligence process, we submit a request to the Investment Committee who has final say.

How long will the whole process take?

You should expect a 90 days process.

Are matching investment funds required?

Yes, we only invest with other investors.

Is there a specific timeframe to meet the matching funds requirement?

You can provide a signed term sheet from an investor or other proof of investment. Investor funding will need to be confirmed in the company prior to MPSF 2.0 disbursement, but the timing can be coordinated with the other investor when contingent on MPSF funding. We strongly recommend that if you have already received investor funds, that you contact us and submit initial

materials within 60 days of receiving the investors' funds.

Is there a specific requirement for the source of investor matching funds?

If you are interested in an investment of \$50,000 or less, the matching funds may come from the founders, owners, family or friends. If you are seeking more than \$50,000 then the majority of the matching funds will need to come from third party investors.

Invest Michigan requires a “Michigan Presence”, what does that mean?

1) Maintaining principal place of business in Michigan; 2) basing no less than 51% of employees in Michigan; and 3) basing the majority of operational and administrative functions in Michigan.

My company is incorporated in another state. Can I still apply?

Yes. As long as the company is registered with the State of Michigan and you are willing to meet the Michigan Presence requirement.

If I plan to move to Michigan in the future can I still obtain financing?

Yes, but you will have to meet the Michigan Presence requirement before funds will be made available.

What's the difference between a Microloan and a Pre-seed Investment?

A Microloan is just a term used for investments of \$50,000 or less and may be the Fund's first investment in a company. For investments of this size our process is usually simpler. We will work with you to determine which will be the optimal first investment in your company.

What is a follow-on investment?

If you have received a previous investment from a qualified investor or are currently seeking financing such as a “seed” round, a follow-on investment from MPSF 2.0 may be appropriate. If you have received a previous investment from MPSF 2.0, then a follow-on investment will be considered. You will need to still obtain matching funds on a 1:1 basis.

What is the maximum amount of funding, including follow-on investment, one company could obtain from the MPSF 2.0?

The maximum investment the Fund will invest in any one company will be \$500,000 over several “rounds” of financing.

What are the terms of your investment?

We will work with a qualified investor to negotiate terms or we may be able to match their terms if agreed to by the company and investor. If an investor is unknown to us, then we will likely lead

the negotiation of the terms with the company. If a convertible note is to be used, standard terms are those currently found in the market for similar types of investments. The company will always be required to provide ongoing information.

Will MPSF 2.0 require a seat on our Board of Directors?

We will not require a board position. However, for larger investments we will require having board observation rights.

What can I use MPSF 2.0 funds for?

We are interested that our investment funds be used for company activities that significantly create value for the company, accelerate market validation or customer acceptance (e.g., hiring employees or third party resources, customer acceptance, completion of product, expansion, etc.). We are not agreeable to funds being used for working capital, debt retirement, founders' compensation, prior expenses or distributions of any kind.

What qualifies as matching funds?

For investments of \$50,000 or less, we are more flexible and funds may come from the founder(s), owner(s), friends, or family, grants, customer revenue, etc.. For Pre-Seed Investments the great majority of matching funds must be from third party private investment sources. Grants, loans, or any type of funds from any federal or state sources, or in-kind services will not be considered as matching funds.

How to I know which SmartZone to go to?

You can use the link below to see all SmartZones in Michigan.

<http://www.michiganbusiness.org/cm/files/fact-sheets/mismartzonefactsheet.pdf>

We recommend you go to the SmartZone nearest to you but if you need an introduction, we can assist you.

Do I need a letter of support from a SmartZone?

You do not need a letter of support but you will need a reference letter. A reference letter need only to indicate the length and type of services provided by the SmartZone to your company. It will be part of a comprehensive information submission.

If I have bad credit, will I still be considered?

An investment decision is not determined solely by your credit history but is one of many factors considered.

How will I know if my company is a "high tech" company?

MPSF

**Michigan
Pre-Seed Fund**

2.0

We consider high tech companies in the areas of advanced manufacturing, alternative energy, agricultural technology, homeland defense, information technology and life science industry sectors and other innovative technologies.

Will you sign a NDA?

We do not sign NDAs. You do not need to provide us with your “secret sauce”. We pledge to respect your confidence and will seek to build mutual trust, after all we will become partners and interested in helping you succeed.

What happens if I get declined?

If you get declined, you will receive feedback on the reasons. You may re-apply only after your company meets the criteria or milestones identified. You may re-apply only once.