

THE UNIVERSITY OF MICHIGAN REGENTS COMMUNICATION

Action Request

Subject: Michigan Advanced Development and Manufacturing Center

Action Requested: Authority to Execute Amendments

Background:

Michigan Advanced Development and Manufacturing Center, LLC (“MADMC”) was formed in March 2012. The sole member of MADMC is Michigan Health Ventures (“MHV”), a Michigan limited partnership. The general partner of MHV is the Michigan Health Corporation (“MHC”), and the limited partner is the Regents, with the Regents holding a 99.99% interest in MHV. MADMC is seeking contractual opportunities that would utilize the assets at NCRC.

In order to pursue those contractual opportunities, it is necessary to provide potential MADMC leadership candidates with the level of management independence and operational flexibility needed to effectively direct a manufacturing start-up enterprise. At the same time, proper oversight and governance must rest with MHC and the Regents due to their ownership interests and due to their responsibilities, liabilities and obligations as partners of MHV.

To achieve these goals, it is necessary to amend the Operating Agreement of MADMC to permit a board of managers (which shall consist of up to seven voting managers, the majority of whom shall have relevant business experience, particularly in biotechnology enterprises at the start-up or established company level, with the requirement that at least one manager be an employee of the Regents) to: elect MADMC’s chief executive officer, chief financial officer and chief operating officer without the necessity of MHV approval; and set forth a standard of care and fiduciary duties of the managers and officers while providing indemnification by MADMC to the managers and others. The MADMC Operating Agreement, as amended, would continue to reserve certain approval rights to MHV, including the right to approve the establishment and revision of the strategic and business plans of MADMC and the adoption of MADMC’s annual capital and operating budget. The amendment to the MADMC Operating Agreement will require MADMC to adopt a conflict of interest policy and a compensation policy, which shall be subject to MHV approval, and will also grant certain reporting rights to MHV and to the Regents and grant certain inspection rights to MHV. Further, the amendment will require MADMC to obtain and maintain general liability insurance, errors and omissions insurance and such other kinds of insurance in amounts and with companies determined by the MADMC Board of Managers.

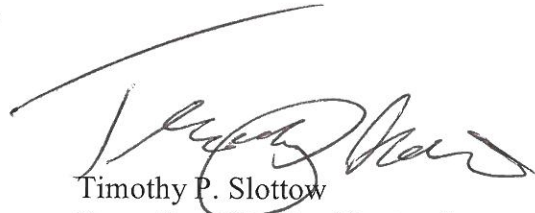
Concurrent with the amendment to the MADMC Operating Agreement, it is also necessary and appropriate to amend the Limited Partnership Agreement of MHV to provide, among other things, that no amendment of the MADMC Operating Agreement, which would adversely affect rights reserved to the Regents, shall be approved or enacted without the mutual agreement of MHC and the Regents; and to affirm the grant to the Regents of certain notice and consultation rights regarding MHV approval of MADMC actions that are subject to MHV approval under the amended MADMC Operating Agreement.

We recommend, consistent with the foregoing, that the executive vice president and chief financial officer be directed to execute a First Amendment to the Limited Partnership Agreement of MHV on behalf of the Regents, as limited partner of MHV. It is acknowledged that, following proper corporate action by MHC and consistent with the foregoing, (a) the First Amendment to Limited Partnership Agreement of MHV will also be executed on behalf of MHC as the general partner of MHV and (b) a First Amendment to Operating Agreement of MADMC will be executed on behalf of MHV, the sole member of MADMC, by MHC as the general partner of MHV.

Respectfully submitted,



Ora H. Pescovitz
Executive Vice President for
Medical Affairs



Timothy P. Slottow
Executive Vice President and
Chief Financial Officer

September 2012