MEMORANDUM

To:	Governor Snyder
From:	Dave Nyberg (906-251-8244 – Mobile)
CC:	Dennis Muchmore; Beth Clement; John Walsh; Jarrod Agen; Steve Arwood
Date:	March 6, 2015
Subject:	FutureMark/Manistique Paper

Governor – The following information is provided to bring you up-to-speed on new information regarding some serious issues facing FutureMark Paper Group's mill in Manistique. We have been in communication with Steve Arwood and his team since this first came onto our radar last week and Steve's Attraction/Retention team (Vince Nystrom and Tino Breithaupt) has been engaged on a daily basis with FutureMark and its senior lender, mBank.

As you know based upon your personal involvement in the existing company's restructuring in 2011, the mill is a critical employer in the Manistique area. However, it appears that the company's owner and private equity investor, The Watermill Group, is seeking publicly-backed solutions that do not include its own vote of confidence. We will keep you apprised of the situation as it continues to develop.

Background

- In 2011 Manistique Papers announced that it would be shutter operations after running into issues with its lender, Rhode Island-based RBS Citizens Financial Group, Inc. With an immediate demand to pay $11 million in outstanding debt, the company was on the brink of Chapter 7 liquidation until MEDC structured a Loan Participation Fund (LPF) financing package ($4.995 million - maximum amount under the program) to support mBank's purchase of the company's ($6.8 million) debt from RBS. USDA Rural Development assisted with a loan guarantee and the City of Manistique and Schoolcraft County also worked with the company on tax payment scheduling in order to avoid Chapter 7.
- The Watermill Group, a Massachusetts-based private equity firm, then purchased the Manistique Mill in 2012 and formed FutureMark Paper in tandem with a sister mill in Illinois to leverage a "green" recycled paper product line that included partial diversification into packaging products.
- Governor Snyder toured the Manistique mill on the first day of his 2012 August U.P. trip and helped celebrate the re-opening of the mill and re-hiring of 130 employees.
- MEDC was taken out of the deal (i.e., paid back) by USDA in 2013.
- In August, 2014, employees at FutureMark's Manistique mill (United Steelworkers) voted in favor of concessions that FutureMark argued were necessary to a restructuring plan that was necessary to maintain the mill's viability.
- In September, 2014, Manistique's sister mill in Alsip, IL closed due to high energy costs and market conditions.
- Manistique Population - ~3,000

Issue

- According to FutureMark, the mill is in the midst of a "turnaround" with new management and a focus on getting back into producing at a high volume by 2016. However, anecdotal reports from

the company's primary lender (mBank) indicate that the mill is facing serious cash flow issues. MEDC learned from mBank on March 4 that The Watermill Group has failed to inject new cash into the company while the company has approached MEDC, mBank, and USDA to rescue the mill with a new financing request in the amount of $4 million.

- Current "ask" to mBank, USDA, and MEDC: Rescue financing in the amount of $4 million
    - 70% USDA Guarantee ($2.8 Million)
        - According to mBank officials, USDA can only come in for a 60% Guarantee. If this is the case, USDA could only come in for $2.4 Million, which would leave a $400,000 gap that would have to be picked up 50/50 by mBank and MEDC.
    - 49.9% LPF from MEDC (Participates at $599,000)
    - $601,000 of new debt exposure from mBank, but mBank issues new debt for $1.2 Million
- To date, the Watermill Group has not indicated that they are, or are willing, to put additional new investment into this $4 million request. They want USDA, MEDC, and mBank to provide them with the entire amount.
- Despite strong support over the past three years, Kelly George (President & CEO) made mBank's position very clear to The Watermill Group this week that it will not consider additional bank debt without additional funding from Watermill to its company. mBank further expressed its willingness to consider additional proposals from Watermill, but Mr. George verbally told MEDC that The Watermill Group would have to come in with $2.0-$2.5 million in order for mBank to consider looking at the deal.
- The mill's electric supplier, Cloverland Electric, contacted the Governor's Northern Michigan Office on March 6 to share that the mill has failed to produce its last five payments (~$75K/payment). FutureMark is on a weekly billing cycle due to previous financial issues with Cloverland.
- Reports also indicate that The City of Manistique and Schoolcraft County have not received recently due tax payments, creating consternation around a local bond project.

Moving Forward

- At this point, The Watermill Group is not seeking a buyer; however, MEDC stands ready to help facilitate any business-to-business dialogue that may be requested (e.g., Verso Paper).
- Steve Arwood and his Attraction/Retention team at MEDC maintain daily dialogue with the FutureMark and mBank to monitor the situation and encourage productive solutions, but at this point it appears that the proverbial ball is in Watermill's court.
- At this point there does not seem to be any awareness of the issue on the part of the U.P. legislative caucus, but in sharing the latest information with the Governor's legislative team we may want to evaluate the sensitivity of the developing issue in light of the fact that news is likely to surface in the near future.
- We will keep you apprised of this very fluid situation as it continues to develop.