

## MANAGEMENT AGREEMENT

This Management Agreement is made and entered into effective as of July 1, 2006, by and between The Leona Group, L.L.C., a Michigan limited liability company (TLG), and Saginaw Preparatory Academy, a Michigan nonprofit corporation and public school academy (the "Academy").

### RECITALS

The Academy is a charter school, organized as a public school academy under the Michigan School Code (the "Code"). Ultimate authority over the Academy is vested in its Board of Directors ("the Academy Board"). The Academy has been granted a three (3) year contract (the "Contract") by the Authorizer to organize and operate a public school academy with the Authorizer as the authorizing body.

TLG is a limited liability company. TLG seeks to improve education through reform affecting public schools, both through direct involvement within the traditional system and alternatives such as charter schools.

The Academy and TLG desire to continue an educational partnership, whereby the Academy and TLG work together to bring educational excellence and innovation to the Academy, based on school design and capacity to implement and manage a comprehensive educational program. In order to facilitate the continuation of school for the 2006-2007 school year and the continuation of school for the 2007-2008 school year, and to continue to provide an innovative educational program at the school, the parties desire to establish this arrangement for the management and operation of the Academy.

Therefore, it is mutually agreed as follows:

### ARTICLE I

#### CONTRACTING RELATIONSHIP

- A. Authority. The Academy represents that it is authorized by law to contract with a private entity for that entity to provide the educational management services described in this agreement. The Academy further represents that it has been granted the Contract by the Authorizer to organize and operate the public school academy known as the Saginaw Preparatory Academy.
- B. Contract. Acting under and in the exercise of its authority, the Academy hereby contracts to TLG, to the extent permitted by law, certain specific functions relating to the provision of educational services and the management and operation of the Academy in accordance with the enrollment, age and grade level specifications for the school.
- C. Status of the Parties. TLG is not a division or a part of the Academy. The Academy is not a division or part of TLG. The relationship between TLG and the Academy is based solely on the terms of this agreement, and the terms of any subsequent written agreements between TLG and the Academy.

## ARTICLE II

### TERM

- A. Primary Term. This Agreement shall have a primary term of Two (2) academic years commencing on the Effective Date of this Agreement and expiring on June 30, 2008 (the "Expiration Date"), subject to Article VII. For the purposes of this Agreement, an "academic year" shall mean fiscal year beginning July 1 and ending June 30 of each year.
- B. Renewal/Additional Terms. This Agreement shall be automatically renewed after the Primary Term for an additional term of one year, and for successive one-year terms thereafter (each of said additional terms and all subsequent one-year terms, an "Additional Term"), unless written notice of intent to terminate or renegotiate is given by either party on or before the date which falls 90 days prior to the Expiration Date (as automatically extended hereby if applicable). All Additional Terms shall be subject to the same terms and conditions as applicable to the Primary Term.

## ARTICLE III

### FUNCTIONS OF TLG

- A. Responsibility. TLG shall be responsible, and accountable to the Board of the Academy (the "Academy Board"), for the administration, operation and performance of the Academy.
- B. Educational Program. The educational program shall be agreed upon between the parties and may be adapted and modified from time to time, it being understood that an essential principle of this educational program is its flexibility, adaptability and capacity to change in the interest of continuous improvement and efficiency, and that the Academy and TLG are interested in results and not inflexible prescriptions.
- C. TLG Functions. Subject to the approval of the Academy Board, TLG shall be responsible for all the management, operation, administration, and education at the Academy. Such functions include, but are not limited to:
1. Implementation and administration of the educational program, including the selection and acquisition of instructional materials, equipment and supplies, and the administration of any and all extra- and co-curricular activities and programs;
  2. Management of all personnel functions, including professional development for the School Leader and all instruction of personnel and the personnel functions outlined in Article VI.
  3. TLG shall be the chief administrative officer and be responsible for the sound financial operation of the Academy within a budget approved by the Academy Board.
  4. The business administration of the Academy.
  5. Installation, but not the expense, of necessary technology at the school facility.

D. Academy Board Functions.

1. The Academy Board shall provide a suitable building for the school and shall operate and control that building.
2. The Academy Board shall have final authority on all decisions regarding the administration, operation, educational program and finances of the Academy.
3. With the prior written approval of the Academy Board, TLG may subcontract any and all aspects of services it agrees to provide to the Academy including, but not limited to transportation and/or food service. However, TLG shall not subcontract the management, oversight or operation of the teaching and instructional program, except as specifically permitted in this Agreement or with specific, written approval of the Academy Board.

E. Place of Performance. With the approval of the Academy Board, TLG may perform functions, other than instruction, such as purchasing, professional development, and administrative functions, off-site at other TLG locations, unless prohibited by state or local law.

F. Non-compliance Issues. TLG shall immediately notify the Board regarding problems and issues related to non-compliance by the school, its staff or students with applicable laws, regulations and accreditation requirements.

G. Due Process Hearings. TLG shall provide students due process hearings in conformity with the requirements of state and federal law regarding discipline, special education, confidentiality and access to records, to an extent consistent with the Academy's own obligations. The Academy shall retain the right to provide due process as required by law.

H. Legal Requirements. TLG shall provide educational programs that meet federal, state, and local requirements, and the requirements imposed under the Code and the Contract, unless such requirements are or have been waived.

I. Rules & Procedures. TLG shall recommend to the Academy Board reasonable rules, regulations, policies and procedures applicable to the Academy. Upon approval by the Board, TLG's failure to promulgate and enforce rules, regulations, policies and procedures approved by the Academy Board shall be considered a material breach of this Agreement.

J. School Year and School Day. The school year and the school day shall be as approved by the Board annually or as changed by the Academy Board from time to time.

## ARTICLE IV

### FINANCIAL ARRANGEMENTS

A. Annual Management Fee: The Academy shall pay TLG an annual management fee ("Annual Management Fee"), determined as follows:

1. Subject to the other provisions of this Article IV, the Annual Management fee, for each academic year during the Term of this Agreement, shall be an amount equal to Twelve (12) percent of the gross receipts of the Academy ("Percentage Revenue Fee"). The gross revenues of the Academy ("Gross Revenues") shall mean all receipts of the Academy of whatsoever kind or nature, excluding any proceeds from borrowings undertaken by the Academy. During the contract period, the minimum annual management fee shall not be less than \$144,000 nor shall it exceed \$210,000.

2. In the event that the Academy issues Tax Exempt Obligations (as defined below) during any academic year during the Term of this Agreement, the Annual Management Fee, for the academic year and for all subsequent academic years, shall be changed to be the sum of the Fixed Periodic Fee and the Annual Variable Fee, as determined in accordance with Subparagraphs 3 and 4 of this Paragraph V A.
3. The Fixed Periodic Fee for any academic year shall be the actual Annual Management Fee for the immediately preceding academic year ("Base Year") increased by the CPI Factor. The CPI Factor shall be the quotient of the United States Bureau of Labor Statistics, Consumer Price Index - All Cities ("CPI Index") for the month of May of the Base Year divided by the CPI Index for the month of May of the year immediately preceding the Base Year. For purposes of this Agreement, the Fixed Periodic Fee for the first academic year of this Agreement shall be One Hundred and Sixty Thousand (\$ 160,000 ) dollars.
4. The Annual Variable Fee for any academic year shall be the Percentage Revenue Fee minus the Fixed Periodic Fee for that academic year. Notwithstanding the foregoing, The Annual Variable Fee shall, in all cases, be limited to an amount which is less than twenty (20%) percent of the total Annual Management Fee for that academic year, but shall never be less than zero (0) dollars.
5. The Fixed Periodic Fee, for the first academic year in which the Academy has Gross Revenues in excess of One Million and Six Hundred Thousand (\$ 1,600,000 ) dollars, shall be automatically increased to Two Hundred Thousand (\$ 200,000 ) dollars. ("Fixed Periodic Fee Adjustment"). The Fixed Periodic Fee Adjustment is intended by the parties to comply with the one-time incentive award provisions of Section 5.03(2) of Rev. Proc. 97-13.
6. The Annual Management Fee shall be paid to TLG as and when state school aid payments, or funds from state and federal agencies or other sources are received by the Academy.
7. For purposes of this Agreement the term "Tax Exempt Obligation" shall mean any obligations of the Academy intended by the Academy to be a "Qualified Bond" as defined in Section 141(e) of the Internal Revenue Service Code of 1986, as amended or any bond or note issued by the Academy which is purchased by the Michigan Municipal Bond Authority or any obligation the interest on which is excludable from gross income under Section 103 of the Internal Revenue Service Code.
8. In the event that the Academy issues Tax Exempt Obligations, the parties intend that this Agreement satisfy each of the requirements of Section 5 or Rev. Proc. 97-13, so that the provision of TLG's services under this Agreement does not cause the Academy's facilities to be treated as used in a private business use under Section 141(b) of the Internal Revenue Code of 1986, as amended. Accordingly, the provisions of this Article IV shall be interpreted so as to comply with such requirements.
9. The parties hereby acknowledge and agree that TLG's compensation under this Agreement is reasonable compensation for services to be rendered hereunder. TLG's compensation shall not be based, in whole or part, on a share of net profits from the operation of the Academy.

10. In addition to the Annual Management Fee, the Academy agrees to pay or reimburse all costs and expenses referenced in this Article IV of this Agreement.
  11. In interpreting this Agreement and in the provision of the services required hereunder, TLG shall not have any role or relationship with the Academy that, in effect, substantially limits the Academy's ability to exercise its rights, including cancellation rights, under this Agreement. As required by the Academy's Article of Incorporation and Bylaws, the Academy Board may not include any director, officer or employee of a management company that contracts with the Academy. In furtherance of such restriction it is agreed between the Academy and TLG that none of the voting power of the governing body of the Academy will be vested in TLG or its directors, members, managers, officers, shareholders and employees, and the Academy and TLG will not be related parties as defined in Treas. Reg. 1.150-1(b).
- B. Other Revenue Sources. In order to supplement and enhance the state school aid payments, and improve the quality of education at the Academy, the Academy may endeavor to obtain revenue from other sources. Such revenue shall be considered part of the Gross Revenues for purposes of computing the management fee. However, if the use of such funds results in additional costs for TLG, TLG shall be reimbursed for those costs at a negotiated rate. In this regard:
1. The Academy may solicit and receive grants and donations consistent with the mission of the Academy. The Academy and/or TLG may apply for and receive grant money, in the name of TLG or the Academy.
  2. The Academy, may establish or participate in a tax-exempt foundation for the purpose of raising supplemental funds for the Academy. TLG will assist with administration of a foundation at the Board's request. Monies from a foundation set up by and managed by the Board are exempt from the Annual Management Fee.
- C. Payment of Costs. Except as otherwise provided in this Agreement, all costs incurred by the Academy shall be paid by TLG, on behalf of the Academy consistent with the approved budget and from school funds.
1. Such costs shall include, but shall not be limited to, salaries, bonus and fringe benefits for all personnel, curriculum materials, textbooks, library books, computer and other equipment, software, supplies, lease payments and maintenance, and agreed upon capital improvements.
  2. Upon receipt of any funds considered part of the Gross Revenues according to this Article IV, TLG shall place such funds in a separate Academy-dedicated account. Such funds shall be used only for expenses incurred by TLG in setting up and operating the Academy and shall be disbursed by TLG for the timely payment of the costs of the Academy. Any cost incurred or any expenditure of funds in excess of the Gross Revenues shall be the sole financial responsibility of TLG.
  3. In the event of termination or expiration of this Agreement, TLG will be reimbursed for any costs not previously reimbursed. At the conclusion of this Agreement, any excess funds in the dedicated account shall be the property of the Academy.

- D. Other Public School Academies. The Academy acknowledges that TLG has, or will, enter into similar management agreements with other public school academies. TLG shall separately account for reimbursable expenses incurred on behalf of the Academy and other public school academies, and shall only charge the Academy for expenses incurred on behalf of the Academy. If TLG incurs reimbursable expenses on behalf of the Academy and other public school academies which are incapable of precise allocation between such academies, then TLG shall allocate such expenses among all such academies, including the Academy, on a pro-rata basis based upon the number of students enrolled at such academies, or upon such other equitable basis as is acceptable to the parties to this Agreement.
- E. Reporting by TLG. TLG will provide the following reports to the Academy:
1. Financial. TLG will produce on a monthly basis a detailed reporting of revenues and expenditures in the form of:
    - a. Budget Projections, Summary Actuals and Summary Budget
    - b. Balance Sheet
    - c. Checkbook Register
    - d. Historical Aged Trial Balance
    - e. A monthly statement of actual and projected cash flow
  2. Other.
    - a. Reports on other Academy operations and student performance.
    - b. Other information on a periodic basis to enable the Board to monitor TLG's performance and the efficiency of its operation of the Academy.
- F. Review of Operational Budget. The Board of the Academy will be responsible for reviewing and adopting the annual functional level budget of the Academy as recommended by TLG.

## ARTICLE V

### PERSONNEL & TRAINING

- A. Personnel Responsibility. TLG shall have the sole responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline and transfer personnel, consistent with state and federal law. All personnel must meet legally required qualifications for their positions.
- B. School Administrator. Because the accountability of TLG to the Academy is an essential foundation of this partnership, and because the responsibility of the School Leader is critical to its success, TLG will have the authority, consistent with state law, to select and supervise the School Leader and to hold him or her accountable for the success of the Academy. The employment contract with the School Leader, and the duties and compensation of the School Leader shall be determined by TLG. TLG with the assistance of the school leader will, in turn, have the authority to select and hold accountable the teachers in the Academy.
- C. Teachers. Prior to the commencement of each school year, and from time to time thereafter, TLG shall determine the number of teachers, and the applicable grade levels and subjects, required for the operation of the Academy. TLG shall hire and provide the Academy with such teachers, qualified in the grade levels and subjects required, as are required by the Academy. The curriculum taught by such teachers shall be the curriculum recommended by TLG and approved by the Academy Board. Such teachers may, in the discretion of TLG, work at the Academy on a full or part-time basis. If assigned to work for

the Academy on a part-time basis, such teachers may also work at other schools managed by TLG. Each teacher assigned to or retained to work at the Academy shall hold a valid teaching certificate or permit issued by the State Board of Education under the Code, to the extent required under the Code, and shall meet any other requirements of state law.

- D. Support Staff. Prior to the commencement of each school year, and from time to time thereafter, TLG shall determine the number and functions of support staff required for the operation of the Academy. TLG shall hire and provide the Academy with such support staff, qualified in the areas required, as are required by the Academy. Such support staff may, in the discretion of TLG work at the Academy on a full- or part-time basis. If assigned to the Academy on a part- time basis, such support staff may also work at other schools operated by TLG.
- E. Training. TLG shall provide training in its methods, curriculum, program, and technology, to all teaching personnel, on a regular and continuous basis. Non-instructional personnel shall receive such training as TLG determines as reasonable and necessary under the circumstances.

## ARTICLE VI

### ADDITIONAL PROGRAMS

Additional Programs. The services provided by TLG to the Academy under this agreement consist of the Educational Program during the school year and school day, for the age and grade level of students, as set forth in the Contract, as such year, school day, and age and grade level may change from time to time. TLG and the Academy may decide to provide additional programs, including but not limited to summer school or other lengthening of the school day or school year. Any state foundation grant revenues received for such programs shall be subject to the Annual Management Fee.

## ARTICLE VII

### TERMINATION OF AGREEMENT WITH CAUSE

- A. Termination by the Academy. The Academy may terminate this Agreement with cause in the event that TLG fails to remedy a material breach within a period reasonable under the circumstances, but not less than thirty (30) days after written notice from the Academy. Material breach may include, but is not limited to, failure to properly account for its expenditures or failure to pay operating costs of the Academy, violation of law, failure to provide an adequate education program.
- B. Termination by TLG. TLG may terminate this Agreement with cause prior to the end of the term specified in Article II in the event the Academy fails to adopt reasonable recommendations of TLG or to remedy a material breach of this Agreement within a period reasonable under the circumstances, but not less than 30 days after written notice from TLG. A material breach may include, but is not limited to, failure to make payments to TLG as required by this Agreement. In addition, TLG, may, at its sole option, terminate this Agreement immediately with no further duty or obligation in the event the Academy's charter is suspended or revoked.
- C. Change in Law. If any federal, state or local law or regulation, or court decision has a material adverse impact on the ability of either party to carry out its obligations under this agreement, then either party, upon written notice, may terminate this agreement upon 30 days notice.

- D. Expiration. Upon expiration of this Agreement, TLG shall have the right to reclaim any usable property or equipment (e.g., including but not limited to desks, computers, copying machines, fax machines, telephones) as were purchased by TLG at its own cost or expense. Fixtures and building alterations shall become the property of the Academy and/or the lessor. All property purchased with Academy funds shall be the property of the Academy.
- E. Transition. In the event of termination of this Agreement for any reason by either party prior to the end of the agreed term, TLG shall provide the Academy reasonable assistance to assist in the transition for a fee to be mutually agreed to by the parties in writing.

## ARTICLE VIII

### PROPRIETARY INFORMATION

- A. General. To the extent permitted by law, the Academy agrees that TLG shall own all copyright and other proprietary rights to all instructional materials, training materials, curriculum and lesson plans, and any other materials developed by TLG, its employees, agents or subcontractors, or by any individual working for or supervised by TLG, which is developed during working hours or during time for which the individual is being paid. TLG shall have the sole and exclusive right to license such materials for use by other school districts, public school academies, private schools, or customers or to modify and/or sell material to other schools and customers. During the term of this agreement, TLG may disclose such proprietary information, including that which is currently in existence as well as that which may be created in the future. The Academy shall treat all such proprietary information as though it were a trade secret and copyrighted, and shall use efforts as may be reasonably requested by TLG to assure that no Academy personnel or agent disclose, publish, copy, transmit, modify, alter or utilize such proprietary information during the term of this Agreement or at any time after its expiration other than to the extent necessary for implementation of this Agreement. Upon expiration of this Agreement, the Academy, however, may continue to use proprietary information developed on behalf of the Academy in the implementation of its ongoing educational program, subject to the foregoing terms which are designed to ensure protection of TLG's proprietary interests.
- B. Required Disclosure. The Academy shall be permitted to report any new teaching techniques or methods of significant revisions to known teaching techniques or methods to the Authorizer and to the State Board of Education, which teaching techniques or methods may thereafter be made available to the public, as provided in Sections 505(3) and 515(3) of the Code, notwithstanding anything contained in this Article VIII to the contrary.

## ARTICLE IX

### INDEMNIFICATION

- A. Indemnification of TLG. The Academy shall indemnify, defend and hold harmless TLG and all of its employees, officers, members, directors, managers, subcontractors and agents against any and all claims, demands, suits, damages, judgments, fees, costs or other forms of liability (collectively "claims") that may arise out of, or by reason of, any claim or allegation of (i) noncompliance by the Academy with any agreements, covenants, warranties or undertakings of the Academy contained in or made pursuant to this Agreement; (ii) any misrepresentation or breach of the representations and warranties of the Academy Board contained in or made pursuant to this Agreement; or (iii) any violation of law.



- B. Indemnification for Tortious Behavior. Each party to this Agreement shall indemnify and hold harmless the other, and their respective boards of directors, partners, members, officers, employees, managers, agents and representatives, from any and all claims and liabilities which they may incur and which arise out of the tortious behavior of the other party, or the tortious behavior of the other party's trustees, directors, officers, employees, agents or representatives involving a third party.
- C. Indemnification of the Academy. TLG shall indemnify, defend and hold harmless the Academy and all of its employees, officers, members, directors, managers, subcontractors and agents against any and all claims, demands, suits, damages, judgments, fees, costs or other forms of liability (collectively "claims") that may arise out of, or by reason of, any claim or allegation of (i) noncompliance by TLG with any agreements, covenants, warranties or undertakings of TLG contained in or made pursuant to this Agreement; (ii) any misrepresentation or breach of the representations and warranties of TLG contained in or made pursuant to this Agreement; or (iii) any violation of law.
- D. Inability to Open School. Should either party fail to perform the obligations of this Agreement prior to the beginning of the first school year contemplated under this Agreement, it shall hold the other harmless for the reasonable expenses incurred by that party in preparing for the opening of school operations, provided that such other party has substantially fulfilled all its obligations necessary to the performance, including but not limited to, securing such waivers as may be necessary for TLG to begin operations and approving TLG's recommendation for selection of the Academy's school personnel.

## ARTICLE X

### INSURANCE

The Academy and TLG shall secure and maintain reasonable general liability and umbrella insurance coverage as required by the Authorizer, with the other party listed as an additional insured. Upon request, the parties shall present evidence to each other that it maintains the requisite insurance in compliance with the provision of this Article.

## ARTICLE XI

### WARRANTIES AND REPRESENTATIONS

The Academy and TLG represent that each has the authority under law to execute, deliver and perform this Agreement and to incur the obligations provided for under this Agreement, that its actions have been duly and validly authorized, and that it will adopt any and all resolutions or expenditure approvals required for execution of this Agreement.

## ARTICLE XIII

### MISCELLANEOUS

- A. Sole Agreement. This agreement supersedes and replaces any and all prior agreements and understandings between the Academy and TLG on the subject matters hereof and may be modified only by a written agreement signed by both parties.
- B. Force Majeure. Neither party shall be liable if the performance of any part or all of this agreement is prevented, delayed, hindered or otherwise made impracticable or impossible by reason of any strike, flood, riot, fire, explosion, war, act of God.

C. Notices. All notices, demands, requirements and consents under this Agreement shall be in writing, shall be delivered to each party and shall be effective when received by the parties or mailed to the parties at their respective addresses set forth below, or at such other address as may be furnished by a party to the other party:

If to TLG:                   The Leona Group, L.L.C.  
4660 South Hagadorn, Suite 500  
East Lansing, MI 48823-5353  
Attention: William Coats

If to Academy:

Saginaw Preparatory Academy  
5173 Lodge Street  
Saginaw, MI 48601

- D. Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties and their respective successors and assigns, but no rights or duties under this Agreement may be transferred or assigned without the express written consent of both parties.
- E. Entire Agreement. This Agreement is the entire agreement between the parties relating to the services provided, and the compensation for such services.
- F. Non-Waiver. No failure of a party in exercising any right, power or privilege under this Agreement shall affect such right, power or privilege, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies of the parties under this Agreement are cumulative and not exclusive of any rights or remedies which any of them may otherwise have.
- G. Governing Law. This agreement shall be governed by and enforced in accordance with the laws of the State of Michigan.

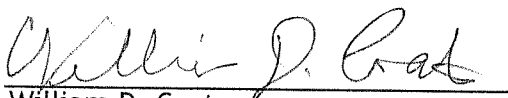
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The parties have executed this agreement as of the day and year first above written.

The Leona Group, L.L.C.

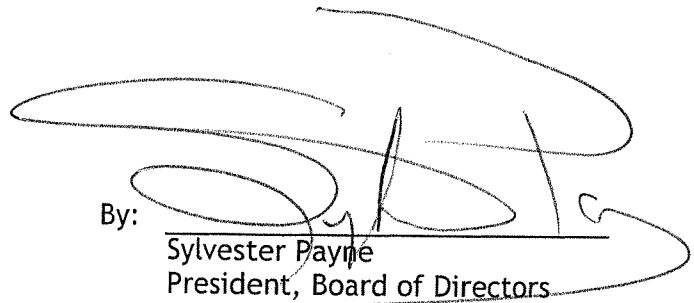
Saginaw Preparatory Academy

By:



William D. Coats  
Chief Executive Officer

By:



Sylvester Payne  
President, Board of Directors