

ACTION REQUEST

Subject: Subcontract Agreement between the University of Michigan and Opteos, Inc.

Action Requested: Authorization to enter into Agreement

Preamble:

A statutory conflict of interest situation was identified by DRDA while reviewing the Proposal Approval Form that then triggered a review of the project by the OVPR Conflict of Interest Review Committee. A plan for management of the possible risks associated with the conflicts of interest was then developed by the Committee and agreed to by the parties involved.

The proposed research agreement (Agreement) falls under the State of Michigan Conflict of Interest Statute because Dr. John Whitaker and Dr. Kamal Sarabandi are both owners of Opteos and employees of the University and Dr. Whitaker is a member of the Board of Directors of Opteos. The law permits such an Agreement provided it is disclosed to the executive officers and approved in advance by a 2/3 vote of the Regents of the University of Michigan (Regents).

Background:

Dr. John Whitaker, Research Scientist and Adjunct Professor in the Department of Electrical Engineering and Computer Science ("EECS"), is 24% equity interest owner and Board of Director's member of a small business located in Ann Arbor called Opteos, Inc. ("Company"). In addition, Dr. Kamil Sarabandi, Professor in EECS, is a co-founder and co-owner of EMAG Technologies which owns 50% of Company. The Company desires to enter into a subcontract ("Agreement") to fund a Small Business Technology Transfer (STTR) Phase II of an Air Force Office of Scientific Research (AFOSR) funded project for work to be conducted under the direction of Dr. Theodore Norris, Professor in EECS.

Nature of the Agreement:

The Company has applied for and received an award from the AFOSR under the STTR Program for the purpose of supporting research Phase II entitled "High Sensitivity Electromagnetic-Field Sensing." The Company wishes to enter into an Agreement with the University to enable Dr. Norris to assist in the performance of this funded research.

Agreement Terms:

The total subcontract to the University will be \$225,000 for the period September 1, 2006 through August 31, 2008. Since research agreements are often amended, the Agreement includes provisions for changes in time, amount, and scope. University procedures for approval of these changes will be followed and additional conflict of interest review will be done as appropriate.

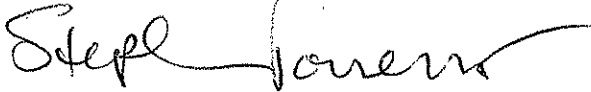
Impact of the Agreement:

The Agreement will support the effort by Dr. Norris to concentrate on the sensitivity of electro-optic and magneto-optic electromagnetic field measurements, both for techniques based on pulsed-laser and cw-laser interrogation of the sensors.

Recommendation:

This matter has been reviewed and approved by the OVPR Conflict of Interest Review Committee. In light of the disclosure made in this document and our finding that the Agreement was negotiated in conformance with standard University practices, I recommend that the Board of Regents approve of the University's entering into this Agreement with Opteos, Inc.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Stephen R. Forrest". The signature is written in black ink and is positioned above the printed name.

Stephen R. Forrest  
Vice President for Research

October 2006